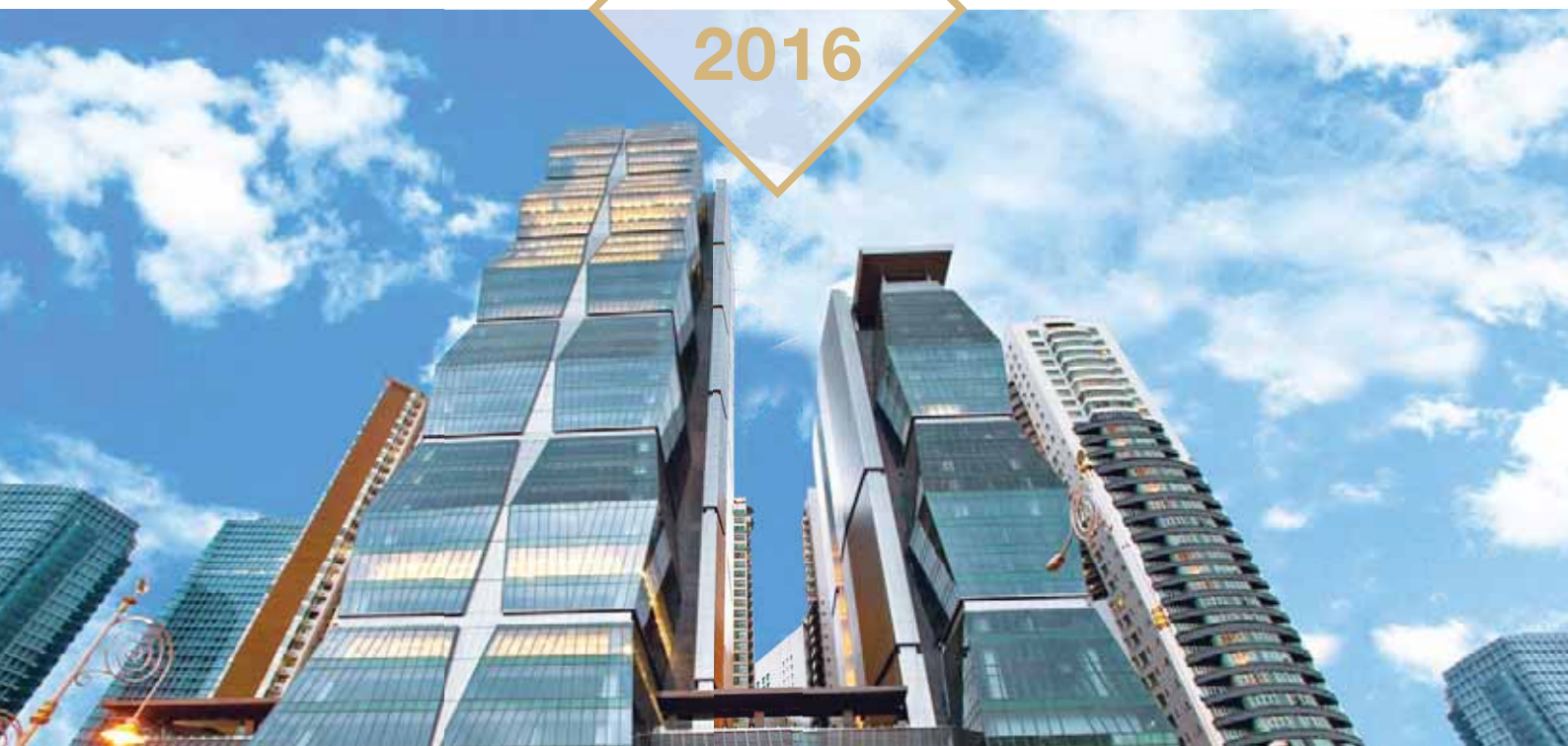




# MRCB *Quill* REIT

ANNUAL REPORT

2016



# CONTENTS



## CORPORATE

|    |                                     |
|----|-------------------------------------|
| 2  | Portfolio Overview                  |
| 13 | 2016 Achievements – At a Glance     |
| 20 | Financial Highlights                |
| 21 | Corporate Information               |
| 22 | Chairman’s Statement                |
| 29 | 2016 Milestones                     |
| 32 | Corporate Highlights & Events       |
| 34 | In The News                         |
| 41 | Trust Structure                     |
| 42 | Board of Directors of The Manager   |
| 43 | Profile of Directors of The Manager |
| 48 | The Management Team                 |

## GOVERNANCE

|    |   |
|----|---|
| 50 | Corporate Governance                              |
| 64 | Statement on Risk Management and Internal Control |
| 67 | Statement on Directors’ Responsibility            |

## FINANCIALS

|     |  |
|-----|--|
| 68  | The Manager’s Report                         |
| 108 | Statement by Manager & Statutory Declaration |
| 109 | Trustee’s Report                             |
| 110 | Independent Auditors’ Report                 |
| 113 | Statement of Comprehensive Income            |
| 115 | Statement of Financial Position              |
| 117 | Statement of Changes In Net Asset Value      |
| 118 | Statement of Cash Flows                      |
| 119 | Notes to the Financial Statements            |

## OTHER INFORMATION

|     |  |
|-----|--|
| 168 | Unitholdings and 30 Largest Unitholders as at 31 December 2016 |
| 171 | Notice of Fifth Annual General Meeting                         |
|     | Proxy Form   |



## PORTFOLIO OVERVIEW

As at 31 December 2016, MQREIT's portfolio comprised of 11 properties. The details are as follows:



### QUILL BUILDING 1 – DHL 1

|                     |   |
|---------------------|---|
| Address/Location    | : 3509 & 3511, Jalan Teknokrat 5, 63000 Cyberjaya, Selangor Darul Ehsan         |
| Property Type       | : Commercial Building   |
| Description         | : 4-storey office building together with a sub-basement and a basement car park |
| Tenure              | : Term in Perpetuity  |
| Date of Acquisition | : 20 November 2006  |
| Net Lettable Area   | : 92,284 sq ft  |
| Purchase Price      | : RM52,100,000  |
| Market Value        | : RM126,500,000 *   |
| Occupancy           | : 100%  |

\* On 14 August 2008, the respective pieces of land on which Quill Building 1 – DHL 1 and Quill Building 4 – DHL 2 are situated have been amalgamated pursuant to the condition imposed by the Securities Commission during the initial Public Offering of MQREIT. As such, the valuations of Quill Building 1 – DHL 1 and Quill Building 4 – DHL 2 have been carried out based on the amalgamated properties. The total valuation of the 2 properties amounted to RM126,500,000.

# PORTFOLIO OVERVIEW

cont'd



## QUILL BUILDING 4 – DHL 2

|                     |  |
|---------------------|--|
| Address/Location    | : 3509 & 3511, Jalan Teknokrat 5, 63000 Cyberjaya, Selangor Darul Ehsan                |
| Property Type       | : Commercial Building  |
| Description         | : 4-storey office building together with a sub-basement and 2 levels basement car park |
| Tenure              | : Term in Perpetuity   |
| Date of Acquisition | : 20 November 2006   |
| Net Lettable Area   | : 99,183 sq ft   |
| Purchase Price      | : RM57,000,000   |
| Market Value        | : RM126,500,000 *  |
| Occupancy           | : 100%   |

\* On 14 August 2008, the respective pieces of land on which Quill Building 1 – DHL 1 and Quill Building 4 – DHL 2 are situated have been amalgamated pursuant to the condition imposed by the Securities Commission during the initial Public Offering of MQREIT. As such, the valuations of Quill Building 1 – DHL 1 and Quill Building 4 – DHL 2 have been carried out based on the amalgamated properties. The total valuation of the 2 properties amounted to RM126,500,000.



# PORTFOLIO OVERVIEW

cont'd



## QUILL BUILDING 2 – HSBC

|                     |  |
|---------------------|--|
| Address/Location    | : 3500, Jalan Teknokrat 3, 63000 Cyberjaya, Selangor Darul Ehsan |
| Property Type       | : Commercial Building  |
| Description         | : 4-storey office building together with a sub-basement car park |
| Tenure              | : Term in Perpetuity   |
| Date of Acquisition | : 20 November 2006   |
| Net Lettable Area   | : 184,453 sq ft  |
| Purchase Price      | : RM107,500,000  |
| Market Value        | : RM121,700,000  |
| Occupancy           | : 100%   |

## PORTFOLIO OVERVIEW

cont'd



### QUILL BUILDING 3 – BMW

|                     |   |
|---------------------|---|
| Address/Location    | : 3501, Jalan Teknokrat 5, 63000 Cyberjaya, Selangor Darul Ehsan                                  |
| Property Type       | : Commercial Building   |
| Description         | : 4-storey office building together with a level of sub-basement and a level of basement car park |
| Tenure              | : Term in Perpetuity  |
| Date of Acquisition | : 20 November 2006  |
| Net Lettable Area   | : 117,198 sq ft   |
| Purchase Price      | : RM59,400,000  |
| Market Value        | : RM76,500,000  |
| Occupancy           | : 91%   |



# PORTFOLIO OVERVIEW

cont'd



## WISMA TECHNIP

|                     |   |
|---------------------|---|
| Address/Location    | : 241, Jalan Tun Razak, 50400 Kuala Lumpur  |
| Property Type       | : Office Building   |
| Description         | : 12-storey office building with a mezzanine floor and three split-levels basement car park |
| Tenure              | : Term in Perpetuity  |
| Date of Acquisition | : 3 September 2007  |
| Net Lettable Area   | : 233,021 sq ft   |
| Purchase Price      | : RM125,000,000   |
| Market Value        | : RM173,000,000   |
| Occupancy           | : 100%  |

## PORTFOLIO OVERVIEW

cont'd



### PART OF PLAZA MONT' KIARA

|                     |   |
|---------------------|---|
| Address/Location    | : Plaza Mont' Kiara, No. 2, Jalan Kiara, Mont' Kiara, 50480 Kuala Lumpur  |
| Property Type       | : Commercial lots and car parks   |
| Description         | : An integrated retail/office commercial units located in Plaza Mont' Kiara within the ground floors of Blocks A & B and Blocks C & D, and at the basement and ground floor of Block E. The car park lots are located in Blocks A, B, C, D and E. |
| Tenure              | : Term in Perpetuity  |
| Date of Acquisition | : 3 September 2007  |
| Net Lettable Area   | : 73,408 sq ft (excluding 1,499 car park lots)  |
| Purchase Price      | : RM90,000,000  |
| Market Value        | : RM116,000,000   |
| Occupancy           | : 84%   |



## PORTFOLIO OVERVIEW

cont'd



### QUILL BUILDING 5 – IBM

|                     |   |
|---------------------|---|
| Address/Location    | : 3500, Jalan Teknokrat 3, 63000 Cyberjaya, Selangor Darul Ehsan                                      |
| Property Type       | : Commercial Building   |
| Description         | : 5-storey office building together with one level of sub-basement and 1½ levels of basement car park |
| Tenure              | : Term in Perpetuity  |
| Date of Acquisition | : 14 March 2008   |
| Net Lettable Area   | : 81,602 sq ft  |
| Purchase Price      | : RM43,000,000  |
| Market Value        | : RM45,300,000  |
| Occupancy           | : 91%   |

## PORTFOLIO OVERVIEW

cont'd



### QUILL BUILDING 8 – DHL XPJ

|                     |   |
|---------------------|---|
| Address/Location    | : 8, Jalan Pemaju U1/5, Section U1, 40150 Shah Alam, Selangor Darul Ehsan   |
| Property Type       | : Industrial Building   |
| Description         | : 3-storey office building with an annexed single storey detached warehouse |
| Tenure              | : Term in Perpetuity  |
| Date of Acquisition | : 25 March 2008   |
| Net Lettable Area   | : 65,205 sq ft  |
| Purchase Price      | : RM28,800,000  |
| Market Value        | : RM25,000,000  |
| Occupancy           | : 92%   |



# PORTFOLIO OVERVIEW

cont'd

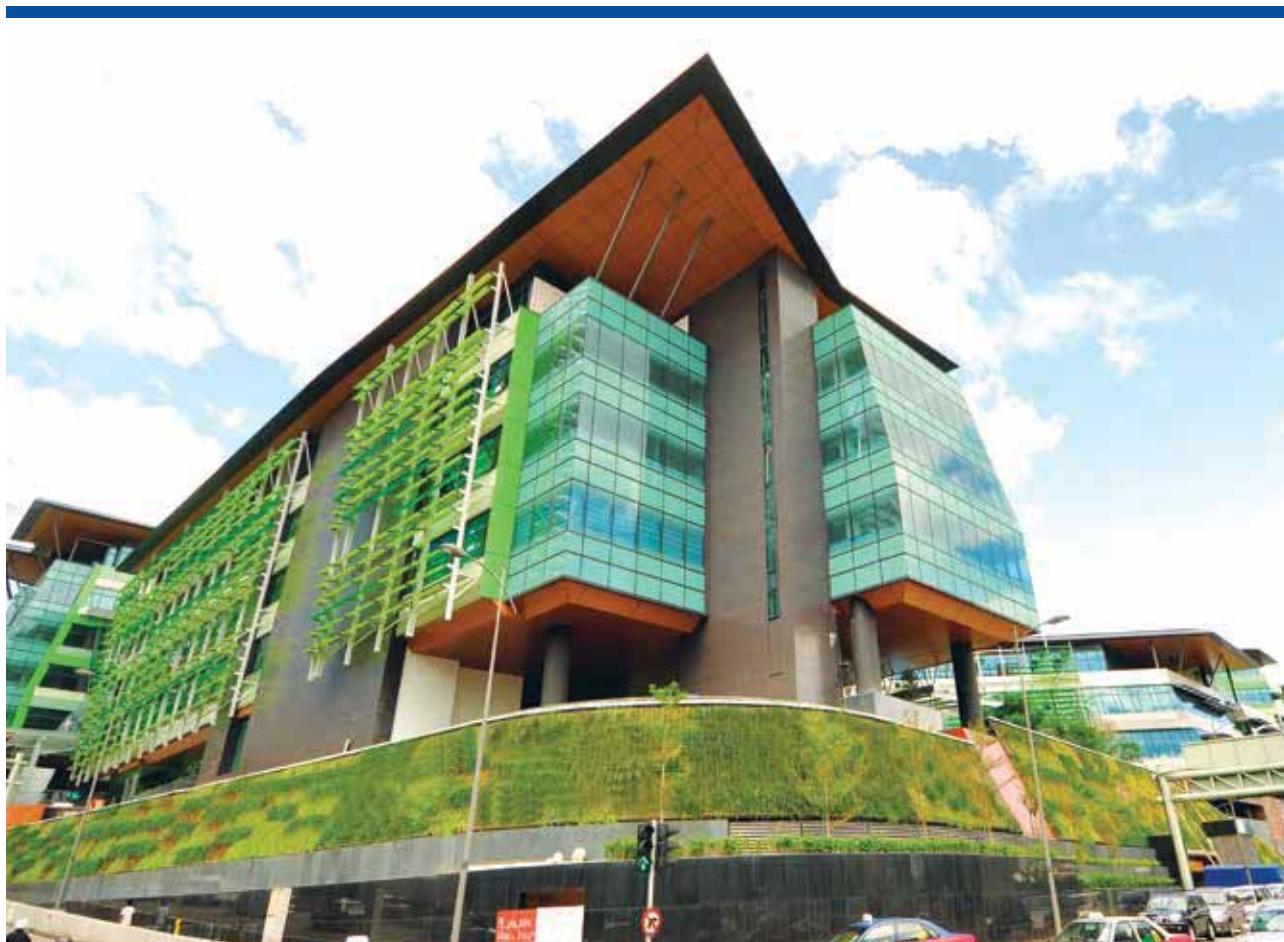


## TESCO BUILDING, PENANG

|                     |   |
|---------------------|---|
| Address/Location    | : 1, Lebuh Tengku Kudin 1, 11700 Penang |
| Property Type       | : Commercial Building                   |
| Description         | : 3-storey building                     |
| Tenure              | : Term in perpetuity                    |
| Date of Acquisition | : 7 November 2008                       |
| Net Lettable Area   | : 275,020 sq ft                         |
| Purchase Price      | : RM132,000,000                         |
| Market Value        | : RM140,000,000                         |
| Occupancy           | : 100%                                  |

## PORTFOLIO OVERVIEW

cont'd



### PLATINUM SENTRAL

|                     |   |
|---------------------|---|
| Address/Location    | : Jalan Stesen Sentral 2, Kuala Lumpur Sentral, 50470 Kuala Lumpur  |
| Property Type       | : Commercial Building   |
| Description         | : 5 blocks of 4 to 7 storey commercial building comprising office-cum-retail space, a multi-purpose hall and 2 levels of car park |
| Tenure              | : Term in Perpetuity  |
| Date of Acquisition | : 30 March 2015   |
| Net Lettable Area   | : 476,370 sq ft   |
| Acquisition Price   | : RM740,000,000   |
| Market Value        | : RM750,000,000   |
| Occupancy           | : 99%   |



# PORTFOLIO OVERVIEW

cont'd



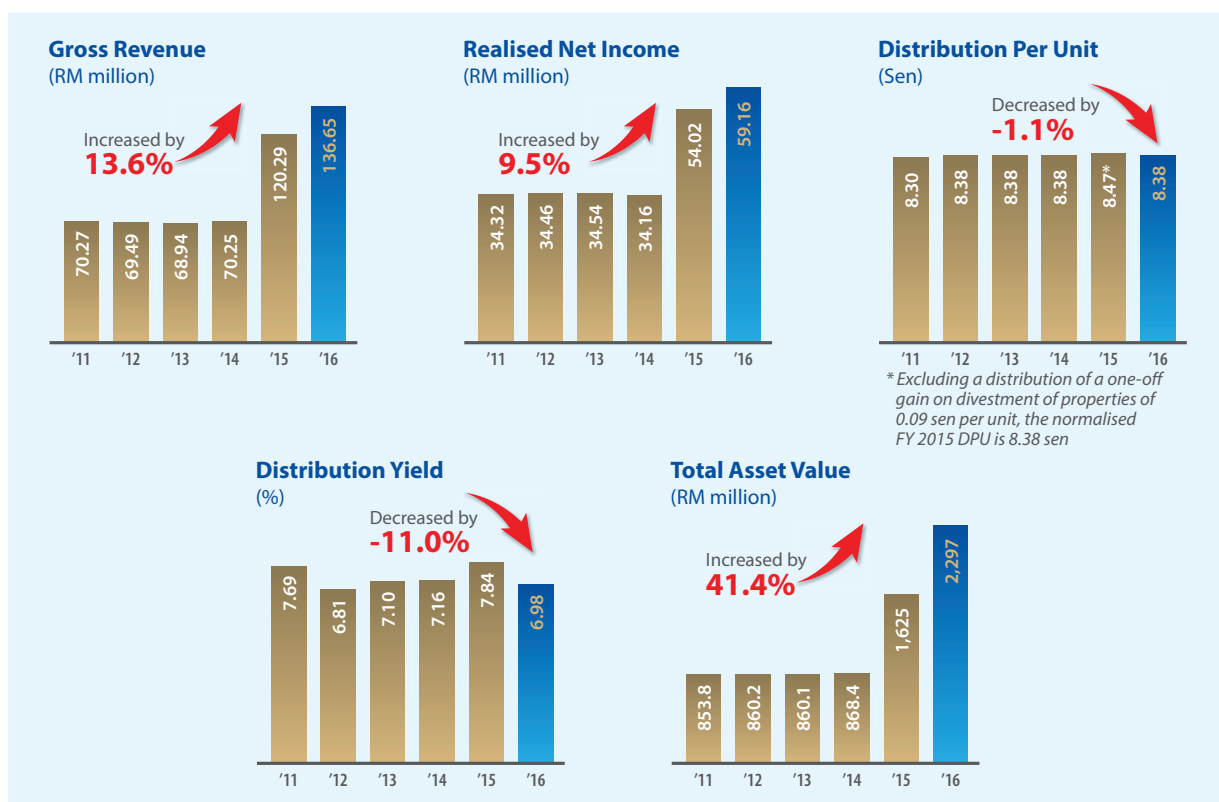
## MENARA SHELL

|                     |  |
|---------------------|--|
| Address/Location    | : 211, Jalan Tun Sambanthan, 50470 Kuala Lumpur  |
| Property Type       | : Commercial Building  |
| Description         | : 33-storey stratified office building erected on a 5 storey podium and a 4 storey basement car park |
| Tenure              | : Term in perpetuity   |
| Date of Acquisition | : 22 December 2016   |
| Net Lettable Area   | : 557,053 sq ft  |
| Purchase Price      | : RM640,000,000  |
| Market Value        | : RM648,000,000  |
| Occupancy           | : 99.9%  |

# 2016 ACHIEVEMENTS

## At a Glance

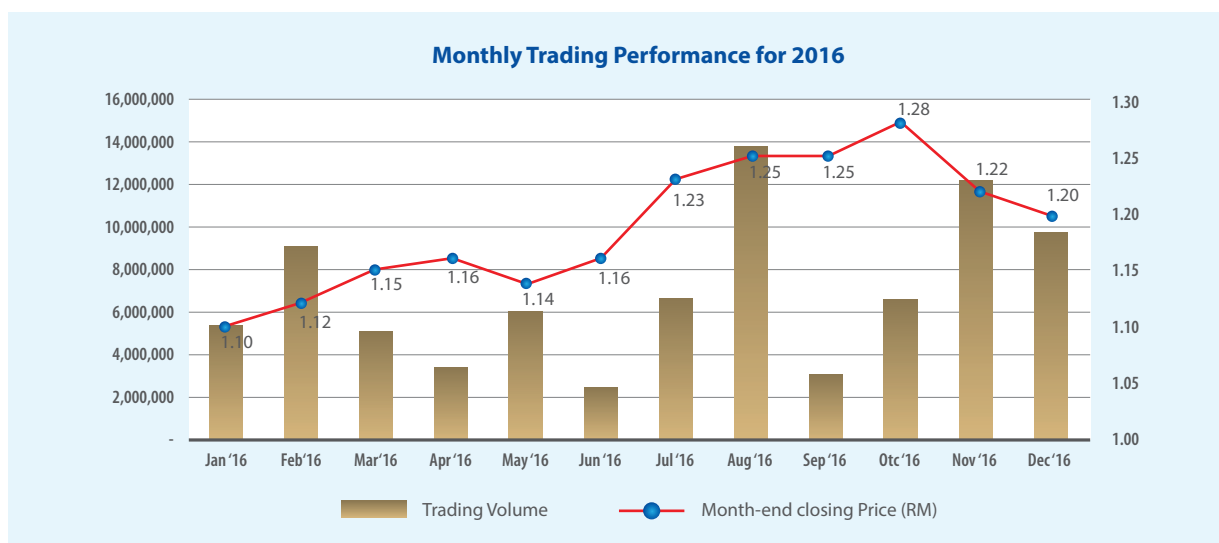
### (A) FINANCIAL HIGHLIGHTS



### (B) TRADING PERFORMANCE

#### Unit Price Performance

MQREIT's Monthly Trading Performance for 2016





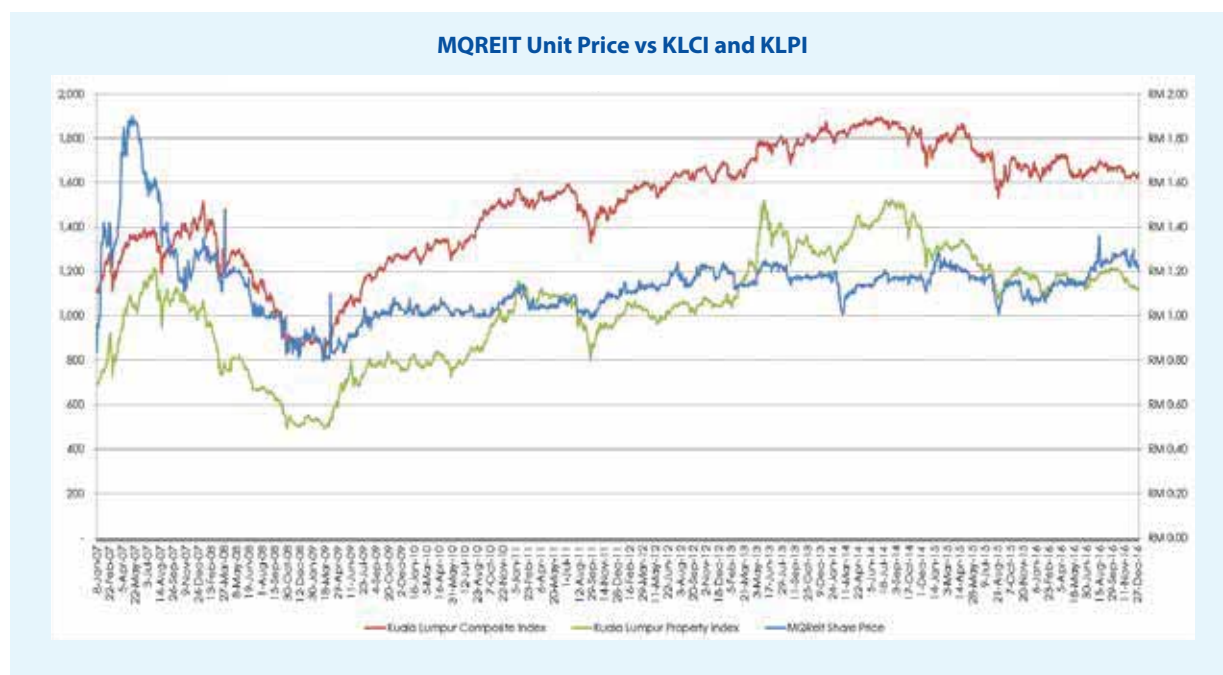
# 2016 ACHIEVEMENTS

At a Glance  
cont'd

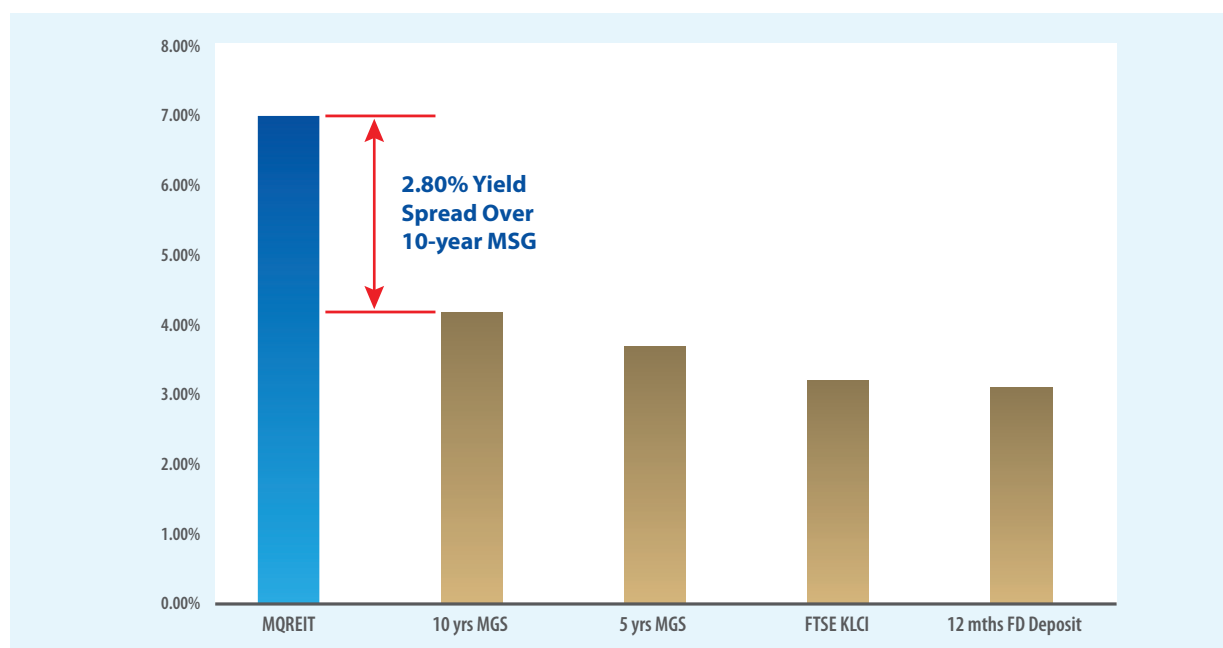
## (B) TRADING PERFORMANCE (cont'd)

### MQREIT's Unit Price versus Performance Benchmarks

- 7 January 2007 (MQREIT Listing Date) to 31 December 2016



## Comparative Yields



Source:

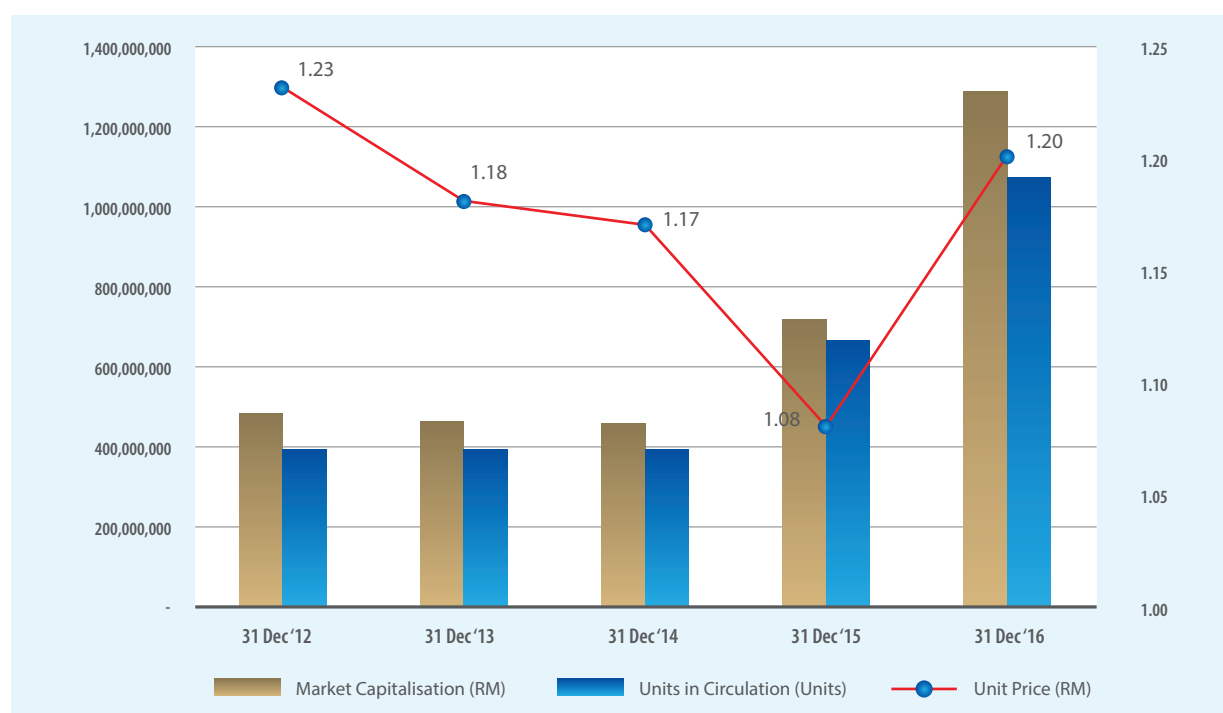
- 1) Rates for 5-yrs MGS & 10-yrs MGS rate was obtained from HSBC Daily Commentary Report dated 30 December 2016.
- 2) 12 months FD rate is from Maybank.
- 3) Dividend Yield of FTSE Bursa Malaysia KLCI as at 31 December 2016 is from Bloomberg.

# 2016 ACHIEVEMENTS

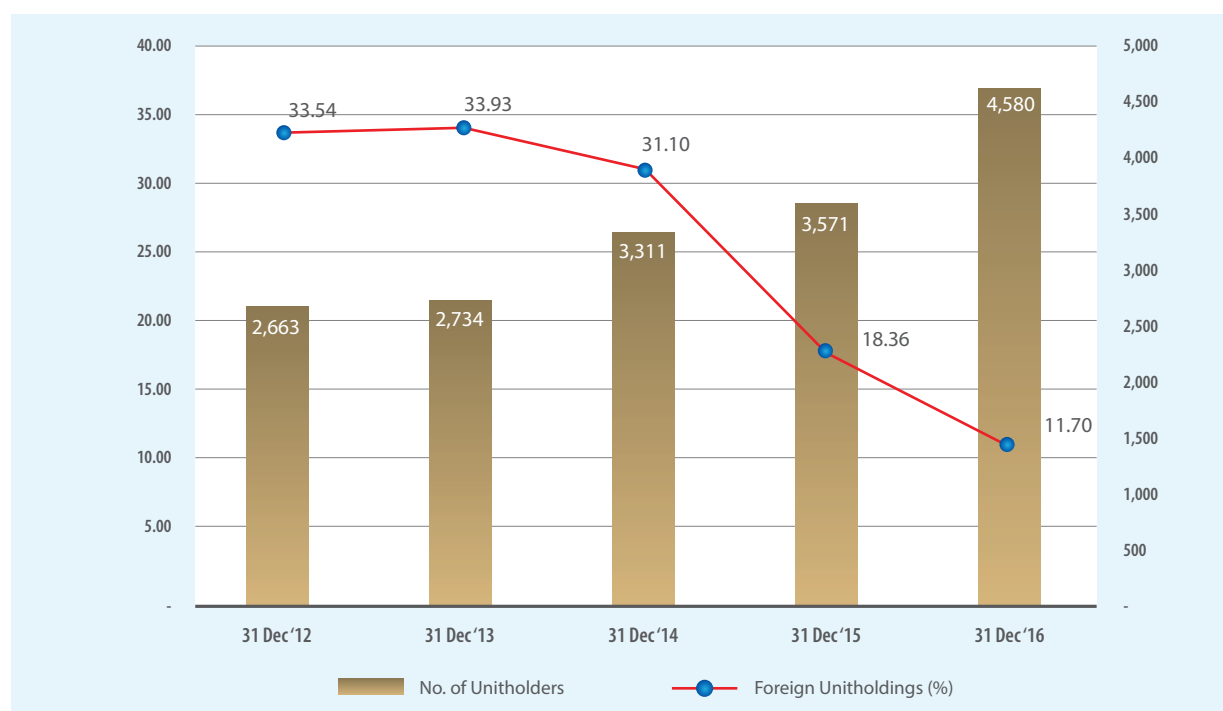
At a Glance  
cont'd

## (B) TRADING PERFORMANCE (cont'd)

### Market Capitalization, Unit Price and Units in Circulation



### Unitholders Statistics (no. of Unitholders vs Foreign Unitholding %)





## 2016 ACHIEVEMENTS

At a Glance  
cont'd

### (C) PORTFOLIO HIGHLIGHTS

As at 31 December 2016, MQREIT's investment comprised of eleven (11) commercial buildings with five (5) located in Cyberjaya, four (4) in Kuala Lumpur, one (1) each in Shah Alam and Penang. During the financial year, one acquisition was completed on 22 December 2016, namely the acquisition of Menara Shell, a 33 storey office tower together with 5 storey podium and 4 storey basement car park located in Kuala Lumpur Sentral. The details of the portfolio are in highlighted on pages 2 to 12.

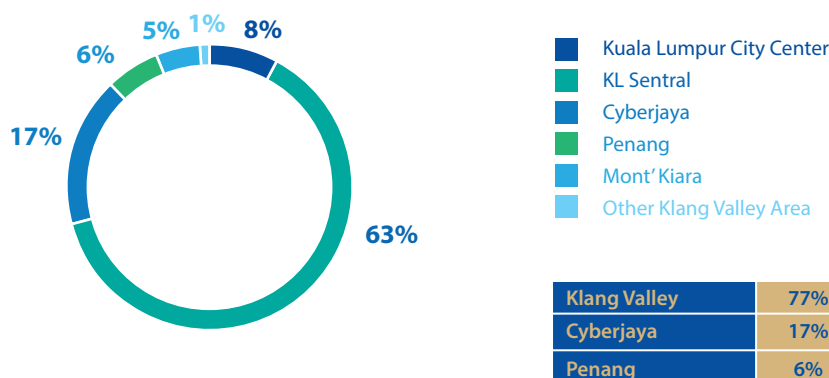
| Portfolio details as at 31 December 2016               | FY2016    | FY2015    |
|--|-----------|-----------|
| No. of Assets – Commercial Real Estates <sup>(1)</sup> | 11        | 10        |
| Valuation of Investment Properties (RM'000)            | 2,222,000 | 1,569,800 |
| NLA (sq. ft.)  | 2,254,797 | 1,697,744 |
| Portfolio Occupancy Rate (%)                           | 98.0      | 97.5      |
| Weighted Average Lease Expiry (years)                  | 5.8       | 5.4       |
| Renewal Rate (%)                                       | 87.0      | 94.0      |

Notes:

1) MQREIT's composition of investment portfolio consist of only real estate assets.

#### GEOGRAPHICAL DIVERSIFICATION (By Valuation)

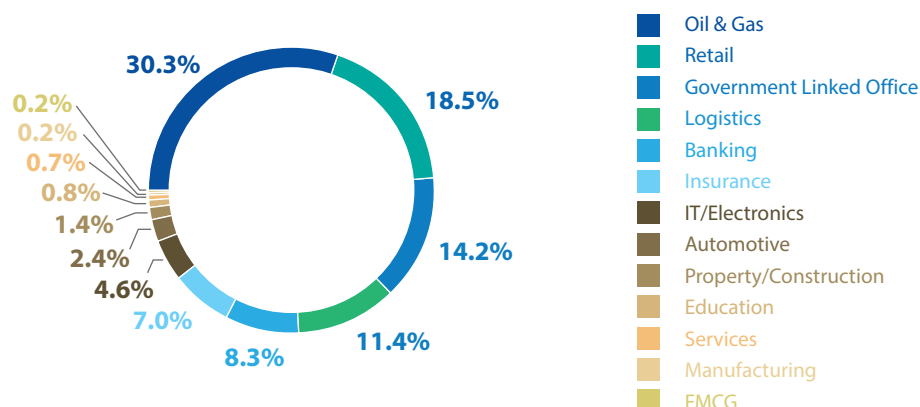
10 properties well spread over Cyberjaya, Kuala Lumpur, Selangor and Penang.



Notes:

1) Based on Valuation dated 31 December 2016.

#### A WELL BALANCED TENANCY MIX (By Net Lettable Area)

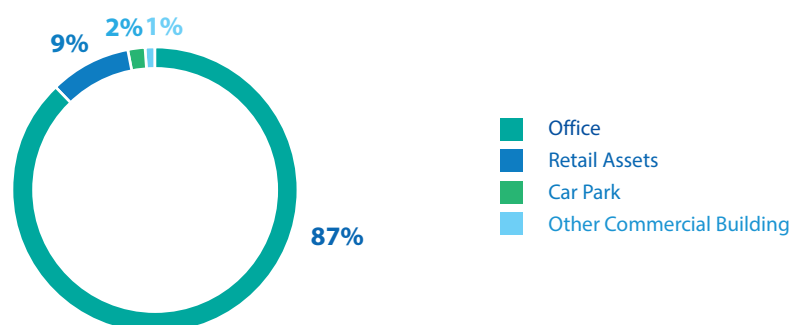


# 2016 ACHIEVEMENTS

At a Glance  
cont'd

## (C) PORTFOLIO HIGHLIGHTS (cont'd)

### Diversified Segmental Contributions (By Valuation)



Notes:

- 1) Office comprises Quill Buildings (excluding Quill Building 8-DHL (XPI) at Glenmarie, Shah Alam), Platinum Sentral, Menara Shell and Wisma Technip.
- 2) Retail Assets refers to retail portion of Plaza Mont' Kiara & TESCO Building Penang.
- 3) Car Park refers to car parking bays in Plaza Mont' Kiara.
- 4) Other commercial building refers to Quill- Building 8- DHL (XPI) at Glenmarie, Shah Alam.
- 5) Based on valuation dated 31 December 2016.

## (D) INVESTOR RELATIONS

We are committed to ensure effective communication and proactive stakeholders' engagement. It is crucial that we strengthen our communication with stakeholders in challenging times to allow stakeholders to make informed decisions.

We continuously enhance our communication channels to cater to the growing needs of stakeholders through the following communication channels:

| Communication Channel                              | Medium of Communication  | Stakeholders   |
|--|--|--|
| Analyst and investor briefings/one-on-one meetings | <ul style="list-style-type: none"> <li>Quarterly financial earnings releases</li> <li>Corporate exercises</li> </ul>                 | <ul style="list-style-type: none"> <li>Institutional investors</li> <li>Analysts</li> </ul>  |
| Property Tour                                      | <ul style="list-style-type: none"> <li>Group tour</li> <li>One-on-one tour</li> </ul>  | <ul style="list-style-type: none"> <li>Institutional investors</li> <li>Analysts</li> </ul>  |
| Conferences  | <ul style="list-style-type: none"> <li>Investors conferences</li> <li>Industry conferences</li> <li>Non-deal roadshows</li> </ul>    | <ul style="list-style-type: none"> <li>Institutional investors</li> <li>Analysts</li> </ul>  |
| Corporate website and investor relation portal     | <ul style="list-style-type: none"> <li>www.mrcbquillreit.com</li> <li>Corporate announcements</li> <li>IR enquiry contact</li> </ul> | <ul style="list-style-type: none"> <li>Institutional investors</li> <li>Retail investors</li> <li>Analysts</li> <li>Media</li> </ul> |
| Research coverage                                  | <ul style="list-style-type: none"> <li>8 research coverage</li> </ul>  | <ul style="list-style-type: none"> <li>Institutional investors</li> <li>Retail investors</li> <li>Analysts</li> <li>Media</li> </ul> |
| Media engagement                                   | <ul style="list-style-type: none"> <li>Media briefing</li> <li>Media release</li> </ul>  | <ul style="list-style-type: none"> <li>Media</li> <li>Public</li> </ul>  |
| Annual General Meetings and annual reports         | <ul style="list-style-type: none"> <li>Reporting of financial performance</li> </ul>   | <ul style="list-style-type: none"> <li>All unitholders</li> <li>Public</li> </ul>  |



# 2016 ACHIEVEMENTS

At a Glance  
cont'd

## (D) INVESTOR RELATIONS (cont'd)

### Unitholders' Meetings

#### Fourth Annual Unitholders' Meeting

On 13 April 2016, MQREIT held its fourth Annual General Meeting ("AGM") to seek unitholders' approvals for the proposed authorization and issuance of new units pursuant of Clause 14.03 of the SC REIT Guidelines ("Proposed Unitholders' Mandate"), as well as to brief Unitholders about MQREIT's financial results for FY 2015.

We are pleased to report that the resolution for the Proposed Unitholders' Mandate was duly passed. We will continue to engage with unitholders regularly to ensure consistency in messages and understanding of the business and operating environment. The AGM will serve as a good platform for the Management to share the highlights of the Trust's financial results for the fiscal year. In turn, unitholders can ask questions, clarify facts and provide feedback to the Management about the Trust's performance and strategies.

#### Extraordinary General Meeting ("EGM")

At an EGM held on 7 December 2016, unitholders approved the acquisition of Menara Shell, the placement exercise to fund the said acquisition (including the placement to MRCB and Employee Provident Fund), the authority to provide the Manager with the flexibility in allotting and issuing new Units to the Manager as payment of the management fee and increase in fund size to accommodate the issuance of the placement units and the manager's units pursuant to the placement and authority exercise. We are pleased to report that all resolutions were duly passed.

### Research coverage in 2016

In 2016, MQREIT was covered by 8 investment banks, which includes four newly-initiated coverage reports. Below is a summary of the reports published for fourth quarter of 2016:

| Coverage                    | Rating     | Target Price<br>(RM per unit) |
|-----------------------------|------------|-------------------------------|
| RHB Research Institute      | Neutral    | 1.32                          |
| Hong Leong Investment       | Buy        | 1.40                          |
| Alliance DBS                | Hold       | 1.37                          |
| Maybank Investment          | Buy        | 1.35                          |
| CIMB Research               | Hold       | 1.35                          |
| UOB Kay Hian                | Buy        | 1.38                          |
| KAF Research                | Buy        | 1.45                          |
| Kenanga Investment Research | Outperform | 1.36                          |

## 2016 ACHIEVEMENTS

At a Glance  
cont'd



*MRCB Quill Management Sdn Bhd  
CEO Yong Su-Lin receiving the award  
on behalf of MQREIT (standing far  
right at the front row).*

### (E) AWARDS AND RECOGNITION

#### Focus Malaysia – Best Under Billion Awards (“BUBA”) 2016

MQREIT was selected as one of the winners for the BUBA 2016 by Focus Malaysia. Winners were selected based on eight (8) categories, namely return on assets, revenue growth, profit growth, cash flow from operations, enterprise value growth, dividend yield, transparency and sustainability reporting.

MQREIT emerged as winner for the “Best Revenue Growth” category during the BUBA 2016 held in October 2016. Winning this award is a testimony of our continuous effort to maximise return of MQREIT’s portfolio by focusing on tenant retention, capital management and cost efficiency measures, while pursuing growth by actively exploring acquisition.

#### 6th Malaysian Investor Relations Association (MIRA) Awards 2016



MQREIT was nominated for the prestigious “Best Company for IR” award for small cap companies listed on Bursa Malaysia Securities Berhad (“Bursa Securities”) at the 6th MIRA Awards 2016 held on the 21 July 2016. In recognition of best IR practices by professionals and public-listed companies listed on Bursa Securities, MIRA engaged NASDAQ to conduct the 6th Malaysian IR Survey. This is aimed at leveraging on NASDAQ’s survey database of investment professionals to participate in the survey, which was conducted between 14 March 2016 and 31 May 2016. This nomination is a recognition of our continuous effort to engage with our unitholders, the investment community and other stakeholders.

We are pleased to inform that MQREIT and various representatives from MRCB Quill Management Sdn Bhd had been nominated for the following categories under the MIRA Award 2016 for small cap companies listed on Bursa Securities:

| No. | Category                           | Ranking |
|-----|------------------------------------|---------|
| 1   | “Best Company for IR”              | 5th     |
| 2   | “Best CEO for IR – Yong Su-Lin”    | 5th     |
| 3   | “Best CFO for IR – Victor Wong”    | 1st     |
| 4   | “Best IR Professional – Joyce Loh” | 6th     |
| 5   | “Best IR Website”                  | 3rd     |



*Winners of Best CFO for IR*



## FINANCIAL HIGHLIGHTS

| Fund Performance                              | 2016                 | 2015          | 2014        | 2013        | 2012        |
|---|----------------------|---------------|-------------|-------------|-------------|
| Total Asset Value (RM)                        | <b>2,297,341,586</b> | 1,625,239,700 | 868,372,713 | 860,120,193 | 860,214,521 |
| Net Asset Value ("NAV") (RM)                  | <b>1,359,698,627</b> | 903,854,859   | 541,251,009 | 533,459,956 | 528,848,973 |
| Units in circulation                          | <b>1,068,000,000</b> | 661,381,000   | 390,131,000 | 390,131,000 | 390,131,000 |
| NAV per unit (RM)                             | <b>1.2988</b>        | 1.3666        | 1.3874      | 1.3674      | 1.3556      |
| Highest NAV per unit (RM)                     | <b>1.3758</b>        | 1.3952        | 1.3874      | 1.3726      | 1.3556      |
| Lowest NAV per unit (RM)                      | <b>1.2731</b>        | 1.3136        | 1.3346      | 1.3202      | 1.2924      |
| Highest traded price per unit (RM)            | <b>1.36</b>          | 1.29          | 1.20        | 1.25        | 1.24        |
| Lowest traded price per unit (RM)             | <b>1.06</b>          | 1.01          | 1.01        | 1.12        | 1.09        |
| Distribution Per Unit ("DPU") (sen)           | <b>8.38</b>          | 8.47          | 8.38        | 8.38        | 8.38        |
| Dates of Distribution                         |                      |               |             |             |             |
| - Interim                                     | <b>8-Sep-16</b>      | 15-Apr-15     | 29-Aug-14   | 9-Sep-13    | 29-Aug-12   |
| - 2nd Interim                                 | -                    | 28-Aug-15     | -           | -           | -           |
| - Final                                       | <b>13-Jan-17</b>     | 29-Feb-16     | 27-Feb-15   | 10-Mar-14   | 12-Mar-13   |
| Effect of Income Distribution on NAV per unit |                      |               |             |             |             |
| - Before Distribution (RM)                    | <b>1.2988</b>        | 1.3666        | 1.3874      | 1.3674      | 1.3556      |
| - After Distribution (RM)                     | <b>1.2731</b>        | 1.3229        | 1.3446      | 1.3246      | 1.3128      |
| Distribution yield (per annum) <sup>(a)</sup> | <b>6.98%</b>         | 7.84%         | 7.16%       | 7.10%       | 6.81%       |
| MER <sup>(b)</sup>                            | <b>1.33%</b>         | 1.19%         | 1.10%       | 1.10%       | 1.28%       |
| Average Total Returns <sup>(c)</sup>          |                      |               |             |             |             |
| - for one year                                | <b>4.80%</b>         | 7.19%         | 8.30%       | 8.39%       | 8.37%       |
| - since listing of MQREIT (Annualised)        | <b>7.56%</b>         | 7.86%         | 7.95%       | 7.90%       | 7.82%       |
| Annual Total Returns <sup>(d)</sup> (RM)      | <b>59,155,963</b>    | 54,020,625    | 34,162,743  | 34,536,806  | 34,460,704  |

(a) Based on the closing price on the last trading day of the respective financial years.

(b) Management Expense Ratio (MER) is computed based on total fees including Manager's fee, Trustee's fee, valuation fees and administration expenses charged to MRCB-Quill REIT divided by the average net asset value during the year.

Since the average net asset value of the Trust is calculated on a monthly basis, the MER of MQREIT may not be comparable to the MER of other real estate investment trust/unit trusts which may use a different basis of calculation.

(c) Average Total Returns is computed based on Annual Total Returns for the respective financial years/periods divided by the weighted average unitholders capital for the respective financial years/periods.

(d) Annual Total Returns is defined as the Net Realised Income for the respective financial years.

**Warning statement** - The past performance is not necessarily indicative of future performances and that unit prices and investment returns may fluctuate.

## CORPORATE INFORMATION



### MANAGER

MRCB Quill Management Sdn. Bhd.  
(Company No. 737252-X)  
(Incorporated in Malaysia)

### REGISTERED ADDRESS OF THE MANAGER

Level 33A, Menara NU 2,  
No. 203, Jalan Tun Sambanthan,  
Kuala Lumpur Sentral,  
50470 Kuala Lumpur.  
Telephone No. : 603-2786 8080  
Facsimile No. : 603-2780 7668

### PRINCIPAL PLACE OF BUSINESS

Level 35, Menara NU 2,  
No. 203, Jalan Tun Sambanthan,  
Kuala Lumpur Sentral,  
50470 Kuala Lumpur.  
Telephone No. : 603-2786 8080  
Facsimile No. : 603-2780 7988

### BOARD OF DIRECTORS OF THE MANAGER

Tan Sri Saw Choo Boon  
Dato' Dr. Low Moi Ing, J.P.  
Dato' Michael Ong Leng Chun  
Dato' Thanarajasingam Subramaniam  
Dr. Roslan bin A. Ghaffar  
Foong Soo Hah  
Ann Wan Tee  
Kwan Joon Hoe  
Aminuddin bin Mohd Arif

### SECRETARY OF THE MANAGER

Mohamed Noor Rahim bin Yahaya  
(MAICSA No.: 0866820)

Ho Ngan Chui  
(MAICSA No.: 7014785)

### BANKERS

Malayan Banking Berhad

### STOCK EXCHANGE LISTING

Main Market of Bursa Malaysia  
Securities Berhad

### WEBSITE

[www.mrcbquillreit.com](http://www.mrcbquillreit.com)

### TRUSTEE

**Maybank Trustees Berhad**  
8th Floor, Menara Maybank,  
100, Jalan Tun Perak,  
50050 Kuala Lumpur, Malaysia.  
Telephone No. : 603-2078 8363  
Facsimile No. : 603-2070 9387

### PROPERTY MANAGERS

**Savills (Malaysia) Sdn. Bhd.**  
Level 9, Menara Milenium,  
Jalan Damanlela, Bukit Damansara,  
50490 Kuala Lumpur.  
Telephone No. : 603-2092 5955

**Zaharin Nexcap Property Management Sdn. Bhd.**  
Suite 23-5, Oval Tower Damansara,  
Menara Permata Damansara,  
No. 685, Jalan Damansara,  
60000 Kuala Lumpur.  
Telephone No. : 603-7733 2122  
Facsimile No. : 603-7733 2103

### REGISTRAR

**Symphony Share Registrars Sdn. Bhd.**  
Level 6, Symphony House,  
Pusat Perdagangan Dana 1,  
Jalan PJU 1A/46,  
47301 Petaling Jaya,  
Selangor Darul Ehsan, Malaysia.  
Telephone No. : 603-7841 8000  
Facsimile No. : 603-7841 8151/8152

### AUDITOR

**Ernst & Young**  
Level 23A, Menara Milenium,  
Jalan Damanlela,  
Pusat Bandar Damansara,  
50490 Kuala Lumpur, Malaysia.  
Telephone No. : 603-7495 8000  
Facsimile No. : 603-2095 5332

### TAX AGENT

**Ernst & Young Tax Consultants Sdn. Bhd.**  
Level 23A, Menara Milenium,  
Jalan Damanlela,  
Pusat Bandar Damansara,  
50490 Kuala Lumpur, Malaysia.  
Telephone No. : 603-7495 8000  
Facsimile No. : 603-2095 5332/7043

### INTERNAL AUDITOR

**BDO Governance Advisory Sdn. Bhd.**  
Level 8, BDO @ Menara CenTARA,  
360 Jalan Tuanku Abdul Rahman,  
50100 Kuala Lumpur, Malaysia.  
Telephone No. : 603-2616 2888  
Facsimile No. : 603-2616 2829





## CHAIRMAN'S STATEMENT



### Dear Unitholders,

It is our pleasure to present to you the Annual Report of MRCB-Quill REIT ("MQREIT") for the financial year ended 31 December 2016 ("FY 2016"), on behalf of the Board of Directors and management of MRCB Quill Management Sdn. Bhd. ("MQM"), the manager of MQREIT ("the Management").

**TAN SRI SAW CHOO BOON**  
Chairman

### Financial Highlights - 31 December 2016

|  |   |  |
|--|---|--|
| <b>Gross Revenue</b><br>RM136.65 mil       | <b>Total Realised Income</b><br>RM59.16 mil | <b>Gearing Ratio</b><br>37.07%           |
| <b>Net Property Income</b><br>RM107.15 mil | <b>Total Assets</b><br>RM2.30 bil           | <b>Distribution Per Unit</b><br>8.38 sen |

## CHAIRMAN'S STATEMENT

cont'd

### OVERVIEW

Global growth was projected by the International Monetary Fund to remain moderate at 3.1% in 2016 driven by the continued growth in emerging markets and developing economies, while being partially offset by the expected slower growth in advanced economies. In Asia, China is the main driver of growth in the region. The slowdown in China's economy has undoubtedly affected the economic activity in Asia arising from China being the major trading partner to most Asian economies. This is evident as economic activity in Asia has slowed down largely due to continuous weaknesses in external trades. Amid the moderate growth, we remain cautious as there are major uncertainties such as the post-Brexit referendum, capital market volatility, slower than expected growth, volatile commodity prices and heightened geo-political tensions that could impede global economic recovery.

Given that Malaysia is an open economy, it will be affected by these global uncertainties. The Malaysian economy registered 4.1% growth in the first half of 2016 driven mainly by domestic demand. Bank Negara Malaysia ("BNM") projects the Malaysian economy to remain on a sustained growth path of 4.0% to 4.5% in 2016 despite the challenging global and domestic economic environment.

Malaysia's economic fundamentals remain intact. The Government's Budget 2017 has laid out initiatives that aims to promote growth and strengthen the country's economic fundamental to enable the nation to benefit from improving global growth and trade. As the external sector remains sluggish, more weight is given to domestic demand to steer growth. BNM is expected to continue pursuing an accommodative monetary policy favouring businesses as household debts are creeping up. In the most recent development, BNM had in January 2017 decided to maintain the Overnight Policy Rate (OPR) at 3.00%.

Overall, Malaysia recorded a good set of key macroeconomic numbers for 2016. Malaysia's economy registered fourth quarter growth of 4.5% year-on-year. For the full-year, the Malaysian economy recorded a 4.2% growth in 2016 (2015: 5.0%).

*(Sources: Malaysian Ministry of Finance Economic Report 2016/2017, Bank Negara Malaysia updates.)*

The Malaysian Real Estate Investment Trust ("M-REIT") industry continues to gain traction with positive developments. The M-REIT industry registered a higher market capitalization of approximately RM44 billion as at 31 December 2016 from approximately RM38 billion as at 31 December 2015, representing a growth of approximately 17% from the previous year. This growth was driven by the rallying of the unit price of most of the M-REIT players which was precipitated by the cut in Overnight Policy Rate ("OPR") by BNM on 13 July 2016 as well as the extended global and domestic macroeconomic conditions and volatile financial markets which has led to increase of fund flows into M-REIT by investors looking for safe havens for investments.

In tandem with this growth, MQREIT's market capitalisation expanded by 79% as at 31 December 2016, bringing its ranking up to 8th position by market capitalization from 9th position as at 31 December 2015. This was the result of the increase in MQREIT units in circulation with the issuance of new MQREIT units pursuant to the placement exercise to partly fund the acquisition of Menara Shell in December 2016. The growth of the M-REIT was also fueled by an active investment landscape in the sector this year with various M-REIT players announcing asset acquisitions.

In line with the liberalization and development of the global REIT market, the Securities Commission ("SC") had on 14 July 2016 released the proposed amendments to SC Guidelines on Real Estate Investment Trust with the objective of facilitating growth by expanding the scope of permitted investments that can be undertaken by a REIT, enhance corporate governance requirements and improve efficiency through streamlining of post listing requirements for listed REITs with those of listed corporations. In tandem with this, Bursa Malaysia Securities Berhad ("Bursa Securities") had on 19 July 2016 issued its consultative paper on the review of the post listing requirements for listed REITs. The proposed changes in the regulatory landscape is timely as it is a reflection of the maturity of the industry. We are supportive of these timely changes proposed by the authorities as such measures will spur the growth of the M-REIT industry and propel it to the next level.

With this, we believe that the growth momentum of the sector coupled with strong fundamentals of its players will continue to make the M-REIT sector an attractive investment option for investors who are looking for relatively low risk investment opportunities with sustainable income and capital growth.

## CHAIRMAN'S STATEMENT

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As at the fourth quarter of 2016 ("4Q 2016"), Klang Valley has a cumulative supply of 103.530 million sq. ft. of office space. 8.250 million sq. ft. of office space are anticipated to enter the market by 2019 of which 3.431 million sq. ft. or eight (8) new developments are expected to be completed by end of 2017. The Klang Valley office sector recorded a take-up rate of about 699,000 sq. ft. for 4Q 2016, which is lower by about 41.9% compared to the same quarter in 2015. This reduction reflects the overall slowdown in the global market and the drop in crude oil and commodity prices since late 2015. However, we believe Malaysia with its competitive economy, comparatively lower operating costs and pro-business regulatory structure and tax incentives, will continue to attract foreign investments to set up its business in its major cities.

*(Sources: Property Market Report on the Purpose-Built Office Sector in Klang Valley and Purpose-Built Retail Sector in Klang Valley and Penang Island, December 2016 prepared by CH Williams Talhar & Wong Sdn Bhd)*

We expect that the office sector outlook in the near term will continue to be challenging with the influx of new office supply into the market and the anticipated softer demand of office space in the coming year. The expected continuance of 2016's global and domestic economic uncertainties into 2017 will inevitably have an impact on the M-REIT sector and consequently, on the performance of MQREIT. Notwithstanding the above, we believe that MQREIT will continue to remain resilient even in this uncertain macroeconomic environment, underpinned by our proactive approach towards asset, portfolio and cost management and additional income from the newly acquired Menara Shell.

### OPERATIONS REVIEW

MQREIT has eleven (11) commercial properties, sited across Malaysia, including Cyberjaya, Kuala Lumpur city centre, Shah Alam, KL Sentral and Penang.

Being an office focused REIT, we actively seek opportunities to strengthen our asset portfolio with superior quality office assets. This is achieved through accretive acquisitions. To this end, we are pleased to inform that on 22 December 2016, MQREIT completed the acquisition of a commercial development consisting of a 33-storey stratified office tower known as Menara Shell together with a 5-storey podium and a 4-storey basement carpark.

An annual valuation of MQREIT's portfolio of properties was conducted at the close of the financial year ended 31 December 2016 ("FY 2016"). MQREIT's total portfolio registered a portfolio value of RM2.22 billion for FY 2016 compared to RM1.57 billion recorded in the financial year ended December 2015 ("FY 2015"). The gain of 41.5% was due to the injection of a new asset namely, Menara Shell and a revaluation surplus of RM3.5 million. The net asset value per unit (after income distribution) is RM1.2731.

The Management's active leasing and asset management strategy throughout the year has ensured successful tenancy renewals of 87.0% of the leases due in 2016. On the back of this as well as new tenancies entered during the year, MQREIT's average occupancy rate as at 31 December 2016 stood at 98.0% (2015: 97.5%) in terms of Net Lettable Area ("NLA"). We will continue to work hard on our marketing programmes and active leasing to maintain a high portfolio occupancy rate.

The resilient performance of MQREIT will be underpinned by our proactive approach towards asset, portfolio and cost management. In cognizance that the office market outlook will remain challenging, strong tenant management will continue to be an essential aspect of our leasing strategy to ensure that higher tenant retention rates are achieved coupled with locking in longer lease renewals to achieve income stability for the Fund. Additionally, our priority will also be on managing MQREIT's operational cost effectively in addition to value addition through active asset management initiatives.

With the growing competition in the market, it is critical for MQREIT to constantly look for creative ways to enhance the value of our properties, ensure that our assets remain relevant and continue to appeal to existing and new tenants. To achieve this, the Management embarks on regular asset enhancement works. In addition to refurbishments, scheduled yearly asset enhancement works are implemented on selected properties mainly aimed at promoting a greener and sustainable environment and assist tenants to achieve their sustainability performance. These asset enhancements ensure that our properties remain attractive and competitive to improve our capability to retain existing tenants as well as attract new ones.



## CHAIRMAN'S STATEMENT

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This year, most of the enhancement works were carried out at Quill Building 1 – DHL 1 and Quill Building 4 – DHL 2 and Quill Building 3 – BMW with respect to installation of features that will allow the tenant to conserve energy and cost, as well as reducing carbon footprint. The enhancements will continue into 2017 with the installation of rain harvesting systems. For Quill Building 3 – BMW, asset enhancement works included providing additional space required by BMW Credit Malaysia Sdn. Bhd.

As for 2017, improvement works will be initiated for several properties, namely Quill Building 1 – DHL 1, Quill Building 4 – DHL 2, Quill Building 3 – BMW, Quill Building 5 – IBM and Platinum Sentral. For Quill Building 3 – BMW and Quill Building 5 – IBM, a new penthouse roofing system will be constructed and new chiller systems will be installed, respectively. Meanwhile, we will be embarking on several common area improvements in Platinum Sentral to improve the quality and physical condition of the facilities.

### FINANCIAL PERFORMANCE

MQREIT recorded a total realised income of RM59.16 million for FY 2016, an increase of 9.5% from the total realised income of RM54.02 million for FY 2015. The improved performance was mainly the result of a full year income contribution from Platinum Sentral, rental rate increase in selected properties and additional revenue from the newly acquired Menara Shell with effect from 22 December 2016, net of higher property operating expenses, finance cost and administrative expenses. Notwithstanding the higher full year realised net income for FY 2016, the EPU of 8.80 sen for FY 2016 is 1.8% lower than the normalized EPU excluding one-off gains on divestment of properties of 8.96 sen for FY 2015 (FY 2015 EPU: 9.06 sen). This is due to higher weighted average number of MQREIT units recorded in FY 2016 arising from the issuance of 406,619,000 new MQREIT units on 22 December 2016 pursuant to the placement exercise.

Overall, MQREIT managed to maintain a steady performance for FY 2016, despite the increasingly challenging operating landscape. This satisfactory result is attributable to MQREIT's portfolio of quality and resilient commercial assets, which are strategically located across Klang Valley and Penang. Additionally, the Management had intensified its marketing and asset management strategies in 2016, which resulted in higher revenue year-on-year while managing MQREIT's property operational cost effectively.

### DISTRIBUTION TO UNITHOLDERS

On 30 November 2016, the Board had declared a special interim distribution per unit ("DPU") of 4.15 sen for the period from 1 July 2016 to 16 December 2016, which has been paid out to unitholders of MQREIT on Friday, 13 January 2017.

This special interim DPU of 4.15 sen, together with the interim distribution of 4.23 sen per unit for the period from 1 January 2016 to 30 June 2016, which was paid on 8 September 2016, amounted to a FY 2016 DPU of 8.38 sen. The Trustee of MQREIT and the Board of the Manager did not recommend any further distribution for the FY 2016.

On a year-on-year comparison, FY 2016 DPU of 8.38 sen is similar to the normalized FY 2015 DPU of 8.38 sen (less the distribution of a one-off gain on divestment of properties of 0.09 sen per unit). The FY 2016 DPU of 8.38 sen translates to a distribution yield of 6.98% based on the closing price of RM1.20 per unit as at 30 December 2016.

With the commitment of delivering sustainable distribution and growth in total return to unitholders, the Management has succeeded in delivering a total DPU of 79.97 sen since June 2007 to December 2016, translating into a compounded annual growth rate ("CAGR") of 2.6% since its listing.

### CORPORATE DEVELOPMENTS

Leveraging from the Right of First Refusal and the strong backing of its sponsors, MQREIT had within 8 months of completing the acquisition of Platinum Sentral i.e. on 3 December 2015, announced the execution of the heads of agreement ("HOA") with 348 Sentral Sdn. Bhd. ("348 Sentral"), a wholly-owned subsidiary of Malaysian Resources Corporation Berhad for the acquisition of Menara Shell at a purchase consideration of RM640 million ("Acquisition of Menara Shell"). The conditional sales and purchase was executed in 30 June 2016.

On 7 December 2016, at an Extraordinary General Meeting ("EGM"), unitholders approved the Acquisition of Menara Shell, the placement exercise to fund the said acquisition, as well as other proposals in relation to the acquisition. We are pleased to report that we have received unanimous support from unitholders' for the above proposals.

## CHAIRMAN'S STATEMENT

cont'd

On 22 December 2016, MQREIT announced the listing and quotation of 406,619,000 placement units pursuant to the placement exercise on the Main Market of Bursa Securities, marking the completion of the Acquisition of Menara Shell.

Moving forward, the Manager will continue to expand its asset portfolio and increase market presence in line with its investment objective to acquire and invest in accretive commercial properties primarily in Malaysia. We are adopting a prudent acquisition strategy with key emphasis on providing long-term growth and sustainable DPU to MQREIT unitholders as well as growth in the net asset value per unit of MQREIT.

### OUTLOOK

The underlying fundamentals of the Malaysian economy are expected to remain strong, on the back of stable labour market with full employment, manageable inflation, healthy foreign reserve and a sound financial system with efficient intermediation to support the economy. Domestic demand is expected to remain the key engine of growth on the account of higher private consumption driven by various government measures to provide impetus to consumption activity. This, coupled with pro-growth fiscal policies and Bank Negara Malaysia's accommodative monetary stance is expected to provide sustainable growth for the country, with a projected growth of between 4% to 5% in 2017.

*(Sources: Malaysian Ministry of Finance Economic Report 2016/2017, Bank Negara Malaysia updates)*

The Kuala Lumpur office market remains competitive due to the soft demand in the midst of an oversupply environment. While office space demand is bolstered by growth from the services, banking and oil & gas sectors, we anticipate softer demand amid certain sectors cutting down office space requirements. However, the office market continues to be stable in 2016 with an average occupancy rate in Klang Valley of 83.4% in 4Q 2016. We expect this to continue into 2017 albeit with pressures on rental rate and occupancy in view of the impending new supply of office space coming on stream. Notwithstanding, office developments within Central Kuala Lumpur and KL Sentral/Mid Valley locality currently still enjoy favourable demand, largely due to the high concentration of office developments and supported by good public

transportation. In addition, Cyberjaya is expected to continue to grow as an office location especially for IT companies with the Government's initiative to turn Cyberjaya into a global technology hub under the new Cyberjaya Global Tech Blueprint.

While we expect the office market outlook to remain challenging this year, we believe that the outlook for MQREIT will remain stable in 2017. MQREIT will continue to remain resilient even in this uncertain macroeconomic environment, underpinned by our proactive approach towards asset, portfolio and cost management as well as the additional income from the newly acquired Menara Shell. The Management will continue to maximise return of its properties by focusing on tenant retention and cost efficiency measures, while continuing to pursue growth by actively exploring acquisition opportunities.

These measures will enhance the quality of MQREIT's portfolio and deliver sustainable income distribution for unitholders.

### SUSTAINABILITY REPORTING

We applaud the move by Bursa Securities in introducing the Sustainability Framework in October 2015. Bursa Securities has put in place new requirements for listed issuers to disclose in its annual reports material sustainability matters which includes details of the management of material economic, environment and social risk and opportunities.

The Management believes that effective sustainability practices will benefit its business and in turn, deliver sustainable value to society at large. In addition to achieving strong financial performance, we will embrace social, environment and governance practices in MQREIT's current business. Sustainability leadership requires understanding and awareness of the various environmental, social, and governance issues that affect both our stakeholders and MQREIT's future growth prospects. While there will be certain areas of sustainability that will be new to the fund, this will be a continuous journey for the Fund and the Management, as we will have to constantly evaluate and understand emerging sustainability requirements. We will work closely with our stakeholders on these sustainability issues to maximise the growth and performance of MQREIT.

## CHAIRMAN'S STATEMENT

cont'd

The Sustainability Framework will be implemented on a staggered basis and MQREIT will be required to provide a detailed Sustainability Statement for its annual report issued for financial year ending 31 December 2018 ("FY 2018"). We will be embarking on sustainability exercise to enable us to provide our stakeholders details of MQREIT's sustainability practices prior to the deadline.

### CORPORATE SOCIAL RESPONSIBILITY ("CSR")

In line with MQREIT's yearly focus in supporting the welfare of needy children, the Management has made contributions to Rumah Kanak-Kanak Impian.

#### Donation to Rumah Kanak-Kanak Impian

In December 2016, the Management donated RM100,000 in cash to the Rumah Kanak-Kanak Impian, a registered voluntary welfare organisation that helps abused, abandoned, neglected, orphaned or at-risk children of all races between the ages of 5 to 17 years old. This donation helped to purchase a van used to chauffeur the children to school and for curriculum activities.

In conjunction with this event, the staff and management team of MQM also participated in this CSR programme by collectively donating food and other daily necessities to the shelter and organizing a get-together Christmas luncheon with the shelter's children.

### AWARDS AND RECOGNITION

FY2016 has been a rewarding year. We are honoured to be nominated and wish to express our sincere gratitude to these esteemed awarding bodies for their acknowledgement.

#### Focus Malaysia – Best Under Billion Awards ("BUBA") 2016

MQREIT was selected as one of the winners for BUBA 2016 by Focus Malaysia. Winners were selected based on eight (8) categories, namely return on assets, revenue growth, profit growth, cash flow from operations, enterprise value growth, dividend yield, transparency and sustainability reporting.

MQREIT emerged as winner for the "Best Revenue Growth" category during the BUBA 2016 held in October 2016. Winning this award is a testimony of our continuous effort to maximise return of MQREIT's portfolio by focusing on tenant retention, capital management and cost efficiency measures, while pursuing growth by actively exploring acquisition.



From left: Bursa Securities CEO Datuk Seri Tajuddin Atan, MQREIT CEO Yong Su-Lin, Focus Malaysia Group Editor-in-Chief Chong Cheng Hai.

#### 6th Malaysian Investor Relations Association (MIRA) Awards 2016

MQREIT was nominated for the prestigious "Best Company for IR" award for small cap companies listed on Bursa Securities at the 6th MIRA Awards 2016 held on the 21 July 2016. In recognition of best IR practices by professionals and public-listed companies listed on Bursa Securities, MIRA engaged NASDAQ to conduct the 6th Malaysian IR Survey. This is aimed at leveraging on NASDAQ's survey database of investment professionals to participate in the survey, which was conducted between 14 March 2016 and 31 May 2016. This nomination is a recognition of our continuous effort to engage with our unitholders, the investment community and other stakeholders.

We are pleased to inform that MQREIT and the representatives of the Management were nominated for the following categories under MIRA Award 2016 for small cap companies listed on Bursa Securities:

- "Best Company for IR"
- "Best CEO for IR – Yong Su-Lin"
- "Best CFO for IR – Victor Wong"
- "Best IR Professional – Joyce Loh"; and
- "Best IR Website"

MQREIT emerged as co-winner for the "Best CFO for IR" category.



# CHAIRMAN'S STATEMENT

cont'd

## ACKNOWLEDGEMENT

The Board wishes to thank Datuk Dr. Mohamed Arif bin Nun for his invaluable contributions during his service tenure as an Independent Non-Executive director of MQM since 25 September 2006. In his place, the Board welcomes En Aminuddin bin Mohd Arif.

I would also like extend our sincere appreciation to the esteemed members of the Board for their continued support. Their vast experiences, depth of knowledge, critical insight, and business acumen have provided valuable advice and guidance to the management, the Board and other committees. To the management and staff of MQM, we record our appreciation for their dedication and commitment in managing MQREIT and MQM.

To the regulators, trustee, analysts, bankers, advisers, property managers, business partners and consultants, we thank you for your continued invaluable support and assistance during the year. Finally to our unitholders and tenants, your loyalty and belief in us will undoubtedly spur us to work harder and we look forward to your continued support.

Sincerely,

**TAN SRI SAW CHOO BOON**

*Chairman*

February 2017

## 2016 MILESTONES

| TIMELINE     | EVENT  |
|--------------|--|
| January 2016 | <p><b>FY2015 Final Distribution to Unitholders</b></p> <p>On 22 January 2016, a final gross distribution of 4.37 sen per unit for the period 1 July 2015 to 31 December 2015 was announced. The final gross distribution was paid on 29 February 2016.</p>   |
| March 2016   | <p><b>Extension of the Cut-Off Dated under the Heads of Agreement dated 3 December 2015 ("HOA")</b></p> <p>MQREIT and 348 Sentral Sdn Bhd via the Extension Letter dated 3 March 2016 mutually agreed to extend the cut-off date for the execution of the Sale and Purchase Agreement ("SPA") in relation to the acquisition of Menara Shell to 15th April 2016.</p>   |
| April 2016   | <p><b>2nd Extension of the Cut-Off Dated under the HOA</b></p> <p>MQREIT and 348 Sentral Sdn Bhd via the Extension Letter dated 12 April 2016 mutually agreed to a 2nd extension of the cut-off date under the HOA for the execution of the SPA to 30 May 2016 with an automatic extension of a further period of thirty (30) Business Days from the New Extended Cut-Off Date to 12 July 2016.</p> <p><b>4th Annual General Meeting ("AGM")</b></p> <p>MQREIT's 4th AGM was held on 13 April 2016 wherein the Audited Financial Statements for the financial year ended 31 December 2015 of MQREIT together with the Trustee's Report issued by Maybank Trustees Bhd ("MTB"), as trustee MQREIT and the Statement by Manager issued by MRCB Quill Management Sdn Bhd ("MQM"), and the Independent Auditors' Report thereon were duly laid.</p> <p>The Ordinary Resolution on the authority to allot and issue new units pursuant to Clause 14.03 of the Guidelines on Real Estate Investment Trusts issued by Securities Commission Malaysia ("SC") was approved by the unitholders by way of poll. This give the mandate to the manager of MQREIT to issue MQREIT units from time to time provided that the aggregate number of the new units to be issued, when aggregated with the number of units issued during the preceding 12 months must not exceed 20% of the approved fund size of MQREIT for the time being.</p>   |
| June 2016    | <p><b>Execution of the Conditional SPA for the Acquisition of Menara Shell</b></p> <p>On 30 June 2016, MQREIT announced that the Trustee, acting solely in the capacity as Trustee for and on behalf of MQREIT, had even date entered into a conditional SPA with 348 Sentral Sdn Bhd, a wholly-owned subsidiary of Malaysian Resources Corporation Berhad ("MRCB"), for the acquisition of Menara Shell together with a 5-storey podium and a 4-storey basement car park ("Property"), for a purchase consideration of RM640,000,000 ("Proposed Acquisition").</p> <p>In conjunction with the acquisition, the following were to be undertaken:</p> <ul style="list-style-type: none"> <li>(i) Proposed placement of up to 406,666,667 new units in MQREIT ("Units") ("Placement Units") by way of bookbuilding at an issue price to be determined later ("Proposed Placement");</li> <li>(ii) Proposed placement to MRCB for an amount of no less than RM110,000,000 but up to RM152,000,000 of Placement Units at an issue price to be determined later, pursuant to the Proposed Placement ("Proposed Placement to MRCB");</li> <li>(iii) Proposed placement to Employees Provident Fund Board ("EPF") of up to 7% of the enlarged Units in circulation of MQREIT at an issue price to be determined later, pursuant to the Proposed Placement ("Proposed Placement to EPF");</li> <li>(iv) Proposed authority to allot and issue up to 31,952,333 new Units for the purpose of the payment of management fee to the Manager in the form of new Units ("Proposed Authority"); and</li> <li>(v) Proposed increase in the existing approved fund size of MQREIT from 700,000,000 Units to up to a maximum of 1,100,000,000 Units ("Proposed Increase in Fund Size").</li> </ul> <p>(collectively referred herein as "Proposals")</p> |

# 2016 MILESTONES

cont'd

| TIMELINE              | EVENT  |
|-----------------------|--|
| <b>July 2016</b>      | <p><b>Malaysian Investor Relations Association (MIRA) Awards 2016</b></p> <p>MQREIT and representatives of the Manager were nominated for the following at the 6th MIRA Awards 2016 held on the 21 July 2016.</p> <ul style="list-style-type: none"> <li>(i) "Best Company for IR"</li> <li>(ii) "Best CEO for IR – Yong Su-Lin"</li> <li>(iii) "Best CFO for IR – Victor Wong"</li> <li>(iv) "Best IR Professional – Joyce Loh"; and</li> <li>(v) "Best IR Website"</li> </ul> <p>MQREIT emerged as co-winner for the "Best CFO for IR" category.</p>   |
| <b>August 2016</b>    | <p><b>SC Approval for the Proposals</b></p> <p>On 27 September 2016, MQREIT received SC's approval for the following:</p> <ul style="list-style-type: none"> <li>(i) Value of the Property pursuant to Clause 10.12(b) of the REIT Guidelines;</li> <li>(ii) Issuance of new Units pursuant to the Proposed Placement and Proposed Authority; and</li> <li>(iii) Listing of and quotation for the new Units pursuant to the Proposed Placement and Proposed Authority on the Main Market of Bursa Malaysia Securities Berhad ("Bursa Securities").</li> </ul>  |
| <b>September 2016</b> | <p><b>Distribution to Unitholders</b></p> <p>On 8 September 2016, a distribution of 4.23 sen per unit for the period 1 January 2016 to 30 June 2016 was paid to unitholders.</p>   |
| <b>October 2016</b>   | <p><b>Focus Malaysia – Best Under Billion Awards ("BUBA") 2016</b></p> <p>MQREIT was selected as one of the winners for BUBA 2016 by Focus Malaysia. Winners were selected based on eight (8) categories, namely return on assets, revenue growth, profit growth, cash flow from operations, enterprise value growth, dividend yield, transparency and sustainability reporting.</p> <p>MQREIT emerged as winner for the "Best Revenue Growth" category.</p>   |
| <b>November 2016</b>  | <p><b>Bursa Securities Approval</b></p> <p>MQREIT received the approval of Bursa Securities via their letter dated 21 November 2016 for the additional listing of and quotation for new Units to be issued pursuant to the Proposed Placement and Proposed Authority on the Main Market of Bursa Securities.</p> <p><b>Establishment of Commercial Papers ("CPs") Programme ("CP Programme") and Medium Term Notes ("MTNs") Programme ("MTN Programme") with aggregate combined limit of RM3.0 billion in nominal value (collectively referred to as the "Programmes") by Kinabalu Capital Sdn Bhd ("Issuer")</b></p> <p>The Issuer, a wholly-owned special purpose vehicle of MTB (as the trustee for and on behalf of MQREIT), had on 30 November 2016 lodged the Programmes with the SC.</p> <p>Proceeds raised from the issuance of CPs and/or MTNs under the Programmes may be utilised by the Issuer, amongst others, to advance to MQREIT to finance or part-finance, amongst others, investment activities (including without limitation capital expenditure, asset enhancement and the related acquisitions and financing expenses) of MQREIT, refinancing of existing and/or future borrowings/facilities of MQREIT, and/or working capital requirements of MQREIT, from time to time.</p> <p><b>Special Interim Distribution to Unitholders</b></p> <p>On 30 November 2016, a special interim distribution of 4.15 sen per unit for the period 1 July 2016 to 16 December 2016 was announced. The final gross distribution was paid on 13 January 2017.</p> |



## 2016 MILESTONES

cont'd

| TIMELINE      | EVENT   |
|---------------|---|
| December 2016 | <p><b>Extraordinary General Meeting (“EGM”)</b></p> <p>On 7 December 2016, unitholders approved the Proposals.</p> <p><b>Price Fixing of the Placement Exercise</b></p> <p>On 8 December 2016, MQREIT successfully completed the placement exercise vide a book building exercise whereby RM487.94 million was raised to part finance the Proposed Acquisition. The issue price of the Placement Units was fixed at RM1.20 per unit and a total of 406.619 mil Units were allocated to selected investors including MRCB and EPF.</p> <p><b>Completion of the Proposed Acquisition</b></p> <p>On 22 December 2016, MQREIT announced 406,619,000 Placement Units pursuant to the placement exercise were listed and quoted on the Main Market of Bursa Securities, marking the completion of the exercise.</p> |

## CORPORATE HIGHLIGHTS & EVENTS

### MQREIT 4TH ANNUAL GENERAL MEETING (AGM) ON 13 APRIL 2016



### EXECUTION OF THE CONDITIONAL SALE AND PURCHASE AGREEMENT FOR THE ACQUISITION OF MENARA SHELL ON 30 JUNE 2016



## CORPORATE HIGHLIGHTS & EVENTS

cont'd

### MQREIT UNITHOLDERS MEETING (EGM) ON 8 DECEMBER 2016



### RM110,000 CASH DONATION TO RUMAH KANAK-KANAK IMPIAN

In December 2016, MRCB Quill Management Sdn Bhd ("MQM"), the manager of MRCB-Quill REIT ("MQREIT"), donated RM110,000 in cash to Yayasan Ozanam - Rumah Kanak-Kanak Impian ("RKKI"). This contribution is in line with MQM's focus in supporting the welfare of needy children and this contribution will be used for a purchase of a van to chauffeur the children to school, extra curriculum activities and weekend activities such as church or sponsored events.



A cheque presentation ceremony was held on 16 December 2016 at RKKI's premise in Petaling Jaya. Ms. Yong Su Lin, Chief Executive Officer of MQM presented the cheque to the President of Society of St Vincent De Paul- Yayasan Ozanam, Mr. Alvin Rajan Ratnasingam.



## IN THE NEWS

4 March 2016

## MRCB extends cut-off date for Menara Shell sale

**MALAYSIAN Resources Corp Bhd (MRCB), in an exchange filing yesterday, noted the cut-off date for the execution of sale and purchase agreement, for the disposal of Menara Shell to commercial real estate investment trust MQ REIT, was extended to a later date. The decision was agreed mutually by the parties involved. MRCB is selling the 33-storey green office tower for RM640 million to MQ REIT whereby a heads of agreement was linked with Maybank Trustees Bhd which acted as trustee for MQ REIT. The disposal of the office tower includes a five-storey podium and four-storey basement car park in Jalan Tun Sambanthan.**

## MQREIT does not expect big impact from office glut

As only 7% of its net lettable area will be up for renewal in July

BY TAN HUI WONG

**KUALA LUMPUR:** MRCB-Quill Real Estate Investment Trust (MQREIT) does not expect to be significantly affected by the current office space oversupply, as only 7% of its net lettable area (NLA) will be up for renewal in July.

Yong Su-Lin, the chief executive officer of MQREIT's manager MRCB-Quill Management Sdn Bhd, said the remaining portion of its total NLA of about 1.57 million sq ft has looked in periods in the rental agreements.

"There will be only a small fluctuation in our occupancy rates," she told reporters after MQREIT's annual general meeting yesterday.

At its December last year, the group's occupancy rate was 87.5%. Of the total NLA, 86% is office space and 14% is retail space.

Yong said for properties with rental agreements due for renewal in July, such as the Quill Building 9 in Shah Alam, Selangor, the present

tenant — logistics company DHL Express — has shown interest in renewing its tenancy.

On the additional office space coming on stream and the prolonged overhang in Kuala Lumpur and Selangor, Yong said they are unlikely to affect MQREIT as its offices are mainly purpose-built.

MQREIT's total assets amount to RM1.67 billion, which will rise to RM2.2 billion upon completion of Menara Shell, which is in the process of being acquired.

Yong said the group is still actively looking at acquisitions, but as the group's gearing level is about 0.43 times, it will seek to achieve its acquisition target by raising funds via equity.

The group's gearing is considered high, given the 50% cap as per REIT requirements, she said.

She added that the group wants to reduce its gearing while expanding its portfolio, and as such, it is likely to tie to the equity fundraising with acquisitions.

In December last year, MQREIT announced the acquisition of Menara Shell from Malaysian Resources Corp Bhd for RM640 million.

The group announced on Tuesday that the purchase price will be extended to May 31, as the group is in the midst of finalising the asset sale.

Yong declined to give forecasts for Menara Shell, saying it is premature to do so at this stage.

Yong: There will be only a small fluctuation in our occupancy rates. Photo by Sun Fung

## MRCB-Quill REIT plans to lower gearing while expanding portfolio

by FREMATHA JAYARAMAN

**MRCB-Quill REIT** plans to lower its gearing while actively looking to expand its portfolio.

MRCB-Quill Management Sdn Bhd CEO Yong Su-Lin said the REIT's gearing currently stood at about 52%.

"In the medium term, we want to reduce our gearing, so that why we are trying to with acquisition with equity fund raising," she told reporters after MQREIT's annual general meeting yesterday.

Yong said MQREIT's portfolio consists of 82% office properties while the remaining 18% comprises retail properties.

She said MQREIT, which will continue to focus on office properties, already has done significant impact from the influx of office supply in the market, as only a small portion of its lettable area (NLA) is up for renewal this year.

"For the REIT, we have a small portion for renewal this year. The space is about 60,000 sq ft. Our total

NLA is 1.57 million sq ft," she said.

Yong said strong tenant management will be an essential aspect of the company's leasing strategy to ensure that higher tenant retention rates are achieved, while looking to longer lease renewals to achieve income stability.

"Our occupancy rate is 87.5%. We will continue with our marketing programme and active leasing to maintain a high portfolio occupancy rate," she added.

For the financial year ended Dec 31, 2015, MQREIT achieved a realised net income of RM4.2 million, or 34.4% compared to the realised net income of RM4.2 million in 2014, as a result of effective operational cost management and the net income contribution from Platinum Sentral.

On the purchase of the 33-storey green office tower in Kuala Lumpur, Menara Shell, Yong said the present REIT is currently going through the process and hopes to sign a sale and purchase agreement before July this year.

She said the company has requested for an extension of the cut-off date for the execution of the sale and purchase agreement to May 31.

Yong said the extension of the cut-off date is to facilitate the submission of an application for a certificate of the proposed asset sale.

Yong said the acquisition of Menara Shell from Malaysian Resources Corp Bhd (MRCB) for RM640 million will see its total assets value grow by RM2.2 billion this year from its current RM1.67 billion.

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14 April 2016

## Aset MRCB-Quill REIT pecah RM2b

● Meterai perjanjian beli hartanah di KL Sentral

1 July 2016

**Oleh Muhammad Abdul Aziz**  
muhammad.aziz@kom.com

**M**RCB-Quill REIT (MQREIT) mengumumkan perjanjian beli hartanah di KL Sentral kepada MRCB Resources Corp Bhd (MRCB) pada 14 April 2016.

Perjanjian ini merupakan perjanjian beli hartanah di KL Sentral kepada MRCB Resources Corp Bhd (MRCB) pada 14 April 2016.

Perjanjian ini merupakan perjanjian beli hartanah di KL Sentral kepada MRCB Resources Corp Bhd (MRCB) pada 14 April 2016.

## Resilient showing in MRCB-Quill's 1Q

**MRCB-Quill REIT** (May 3, MYX:114) maintained its unchanged target price (TP) of RM1.24 in its first quarter of financial year 2016 (1QFY16) with revenue of RM23.7 million, up by 75.5% year-on-year (y-o-y) to RM23.7 million, which was translated into a normalised net profit of RM2.24 million (0.41% higher y-o-y), accounting for 26.2% and 20.8% of Hong Kong Investment Bank Research and consensus full-year forecasts respectively.

There were no dividends in the quarter as the dividends are usually declared semi-annually.

MRCB-Quill's resilient revenue growth (for y-o-y and quarter-on-quarter (q-o-q)) in 1QFY16 was due to additional income from Platinum Sentral and a step up in asset adjustments. Net income grew higher by 84.1% y-o-y helped by lower repairs and maintenance this year, while 6.9% q-o-q given the low base of operational expenditure last quarter from cost-saving provision.

Its overall occupancy rate was

stable at 97.1% (0.4% of net lettable area (NLA) not renewed) from Plaza Most Kian. Major asset enhancement initiatives planned for this year include energy-saving and carbon footprint reduction at both Quill Building 1-DH and Quill Building 4-DH, as part of the negotiations during renewals.

As reported in our previous note, we understand that the RM640 million acquisition of Menara Shell will likely complete in 1QFY17. Currently, the vendor is in the midst of preparing the submission of an application for a certificate of the proposed asset sale to subdivide Menara Shell and other buildings attached under a master title.

In terms of funding, right issues or placements and minimal debt would be in the mix in order to pursue down the gearing level. Despite the challenges, we expect the 7% of the NLA is due for renewal, hence, the downside is minimal from a risk perspective. In terms of inorganic growth, other than the imminent acquisition of Menara Shell,

we understand that the management is looking at any other acquisition or asset injection in FY16.

MRCB-Quill's risks are its high gearing compared with industry average and a slower rental revision rate for office market. We note no changes to our forecasts and keep a "buy" rating on MRCB-Quill with a high possibility of asset injections from sponsor, and resilient earnings' growth with undemanding valuations. Its negatives are its high gearing, diluted trading and wider office market.

Positives for the REIT include a high possibility of asset injections from sponsor, and resilient earnings' growth with undemanding valuations. Its negatives are its high gearing, diluted trading and wider office market.

Our valuation was pegged to a targeted yield based on two stand-alone valuations below 7.2%, one-year historical average yield spread of MRCB-Quill REIT and 10-year government bond in view of its resilient yield-accrual (projected).

— Hong Kong Investment Bank Research, May 3

4 May 2016

6 May 2016

## HLIB keeps 'buy' call on MRCB-Quill REIT

**KUALA LUMPUR:** — Hong Kong Investment Bank (HLIB) has maintained a "buy" recommendation for MRCB-Quill REIT with an unchanged target price of RM1.24.

It based its recommendation on a consistent high distribution per unit yield of above 7% and imminent asset injection in the near future.

Its valuation was pegged to targeted yield based on two stand-alone valuations below 7.2%, one-year historical average yield spread of MRCB-Quill REIT and 10-year government bond in view of its resilient yield-accrual (projected).

HLIB Research stated there is a high possibility of asset injections from a sponsor

and it expects a resilient earnings growth with undemanding valuations.

However, it pointed out some negative — with high gearing, diluted assets and a wider office market.

Risks include high gearing compared to the industry average and a slower rental revision rate for the office market.

The company's growth was supported by the first quarter of financial year 2016 (1QFY16) of RM23.7 million, a 75% growth year-on-year (y-o-y), was translated into normalised net profit of RM2.24 million, up 84.1% y-o-y, accounting for 26.2% and 20.8% of HLIB and consensus forecasts, respectively.

"MRCB-Quill REIT saw" resilient revenue growth (for both y-o-y and quarter-on-quarter (q-o-q)) in 1QFY16 due to additional income from Platinum Sentral and a step up in asset adjustments.

"Net income grew higher by 84.1% y-o-y helped by lower repairs and maintenance this year, but dropped 6.9% q-o-q given the low operating expenditure base last quarter from cost saving provisions," said in the report.

Its overall occupancy rate is stable at 97.1% with 0.4% of net lettable area (NLA) not renewed in Plaza Most Kian.

Major asset enhancement initiatives planned for this year include energy saving and carbon footprint reduction at both

Quill Building 1-DH and Quill Building 4-DH, as part of renewal negotiations.

Despite the challenges, we expect this year, only 7% of the NLA is due for renewal, meaning a minimal downside from a risk perspective.

In terms of inorganic growth, besides the RM640 million acquisition of Menara Shell — which is expected to be completed in 1QFY17, MRCB-Quill REIT management is not looking at any other acquisition or injection this year.

In terms of funding, right issues or placements and minimal debt would be in the mix for the Menara Shell acquisition in order to pursue down its gearing level.

Quill Building 1-DH and Quill Building 4-DH, as part of renewal negotiations.

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## Smaller cap dividend stocks also popular

From previous page  
FY17 ending March next year, implying a yield of 4.8%.

Fund managers are bullish on the company given its solid earnings visibility and strong demand for its affordable housing. Sales hit a record high recently and it still has a large pipeline of affordable homes to be launched.

While foreign interest is expected to be centred largely on large-cap dividend

Table 2: Top 10 mid- and small-cap stocks

| Company                            | Dividend yield (%) | FY15 dividend (per unit) | Dividend payout ratio (%) | Share price (RM) | Year-to-date return (%) | One month price change (%) | P/E ratio | Free cash flow (RM mil) | Market cap (RM mil) |
|------------------------------------|--------------------|--------------------------|---------------------------|------------------|-------------------------|----------------------------|-----------|-------------------------|---------------------|
| Karyana Prospective Industries Bhd | 8.8%               | 7                        | 129%                      | 0.80             | -11%                    | 4%                         | 10.6      | 2%                      | 197                 |
| SIA Corporation Bhd                | 8.4%               | 25                       | 59%                       | 2.99             | 3%                      | 4%                         | 6.9       | 10%                     | 218                 |
| ICI Capital Bhd                    | 8.1%               | 25                       | 43%                       | 0.78             | -1%                     | 4%                         | 10.6      | 10%                     | 218                 |
| Serban Pros Holdings Bhd           | 7.7%               | 18                       | 57%                       | 2.35             | -4%                     | 4%                         | 6.0       | 11%                     | 227                 |
| MRCB-Quill REIT                    | 7.3%               | 8                        | 100%                      | 1.16             | 7%                      | 2%                         | 12.4      | 40%                     | 767                 |
| Capital Square Bhd                 | 6.7%               | 8                        | 96%                       | 1.32             | 3%                      | 2%                         | 10.6      | 10%                     | 197                 |
| Peninsular Sdn Bhd                 | 5.8%               | 25                       | 82%                       | 0.80             | 40%                     | 2%                         | 10.7      | 10%                     | 80                  |
| CRB Corporation Bhd                | 5.6%               | 3                        | 100%                      | 0.89             | -7%                     | 2%                         | 14.9      | 4%                      | 80                  |
| Fima Corporation Bhd               | 5.6%               | 13                       | 54%                       | 2.23             | -2%                     | 2%                         | 16.1      | 9%                      | 138                 |
| Apex Media Bhd                     | 5.5%               | 1                        | 44%                       | 1.10             | -2%                     | 4%                         | 12.4      | 10%                     | 138                 |

stocks, fund managers say small- to mid-cap dividend stocks below RM100 market cap are also worth considering.

Since the end of 2014, the FTSE Bursa Malaysia Small Cap Index increased by 3.2% to RM9.96 to 15,511.49 points on 12 May 12. Conversely, the FTSE Bursa

## Hunt for higher yields

**MRCB-Quill REIT**  
CEO YONG SU-LIN

WITH Malaysian Resources Corporation Bhd (MRCB) completing its disposal and acquisition of Quill Capital Trust in March last year, MRCB-Quill REIT has gained investor interest. The REIT also announced plans to finalise the acquisition of Menara Shell from MRCB.

For FY15 ended Dec 31, MRCB-Quill REIT distributed eight sen in dividend, translating to a dividend yield of 7.3% for the period.

For QFY16 ended March 31, its net profit increased 84% to RM2.24 million from RM2.27 million a year earlier. MRCB-Quill REIT attributed

the higher earnings to the acquisition of Platinum Sentral in March 2014.

It has 10 properties valued at RM1.57 bil, and analysts believe the acquisition of Menara Shell will increase the value to RM2.24 bil.

MRCB-Quill is backed by its sponsors MRCB, Quill Resources Holding Sdn Bhd and Global Impact Sdn Bhd. It has a pipeline of assets for future acquisitions, namely MRCB 35, Akad Sentral Kuala Lumpur, Quill's Quill Building 4, Quill Building 18 and Quill Building 9. MRCB has a 3.1% stake in the company.

Malaysia REIT index fell 6.77% to 112.27 points to 1,488.00 points during the same period.

A fund manager picks PSCM that small- and mid-cap dividend stocks are often not on the radar of foreign funds.

"Given the large pool of money from foreign funds, smaller cap stocks will be of interest to them. They are not able to take a meaningful position in the

stocks. Low liquidity is another reason as funds cannot get into one out of the stocks without affecting the share prices."

Compared to smaller-cap stocks, large-cap companies typically have stronger balance sheets, easier access to capital, lower cost of capital, more stable revenues and earnings, and strong cash flows to reinvest into their businesses.

However, when larger-cap dividend stocks get re-rated, smaller cap ones should as well. "Smaller cap dividend stocks will be of interest to smaller local and foreign institutional funds. When the market moves, smaller cap will have higher leverage in terms of price movement," he says.

**Favourite picks**

Fund managers highlighted some dividend-paying stocks that are attractive to investors. They include MRCB-Quill REIT, CYL Corporation Bhd, Peninsular Sdn Bhd, Fima Corporation Bhd, and Turbo-Mech Bhd.

CYL Corporation, Peninsular and Fima Corp are favourite picks as they are also backed by net cash positions.

For FY13, CYL Corporation distributed a five sen dividend, a yield of 5.6% based on its current share price. Peninsular and Fima Corp both distributed dividends of 35 sen and 13 sen in FY13, translating into yields of 5.8% and 5.6%, respectively.

Oil and gas (O&G) retailer Turbo-Mech, also a net cash company, has been emerging as a high dividend yield stock following the fall in global crude oil price last year. While most O&G-related companies decided to reduce dividend payouts to sustain their war chests, Turbo-Mech announced a dividend of five sen in FY13, lifting its dividend yield to 6%.

For REITs under the RM1 bil market cap, MRCB-Quill REIT is favoured by fund managers. For FY13, MRCB-Quill REIT's dividend yield of 7.3% surpassed its larger market cap peers. During the period, the REIT distributed a dividend of eight sen.

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## IN THE NEWS

cont'd



1 | From left: Maybank Trustees Bhd CEO Chong Kin Tuck, MRCB Quill Management Sdn Bhd director Datuk Michael Ong Leng Chun, Malaysian Resources Corporation Bhd (MRCB) group MD Tan Sri Mohamad Salim Fateh Din and executive director Mohd Imran Mohamad Salim are all smiles as MRCB subsidiary 348 Sentral Sdn Bhd signs a conditional sale and purchase agreement for the disposal of Menara Shell to MRCB-Quill REIT for a cash consideration of RM640 mil. The ceremony took place in Kuala Lumpur on June 30.

8 July 2016

## MQREIT 2Q NPI up 5.7% on higher income from Platinum Sentral

BY GHO CREY YUAN

KUALA LUMPUR: MRCB-Quill REIT's (MQREIT) net property income (NPI) for the second quarter ended June 30, 2016 grew 5.7% to RM25.89 million from RM24.31 million a year ago, driven by higher income from Platinum Sentral and selected properties due to positive rental reversions, as well as lower property operating expenses.

Gross revenue for the quarter gained 1.2% to RM32.57 million from RM32.18 million a year ago due also to the same reasons.

The trust manager declared a distribution per unit (DPU) of 4.23 sen, amounting to RM27.96 million, payable on Sept 8, which is 1.2% higher than the 4.10 sen DPU distributed in 1H FY15.

For the 1H FY16, its NPI gained 34.6% to RM51.15 million from RM37.99 million a year ago, while gross revenue rose 28.4% to RM63.22 million from RM49.38 million.

MQREIT chairman Tan Sri Saw Choo Boon said the better performance for 1H FY16 was achieved mainly through his proactive ap-

proach towards asset and portfolio management and cost management.

"Notwithstanding the subdued economic climate which has impacted business sentiment, we believe MQREIT would be able to deliver steady income distributions to unit holders for the second half of 2016," he said, adding that the trust manager will continue with its current strategies as well as actively look for acquisition opportunities to enhance unit holder value.

Meanwhile, his chief executive officer Yong Su-Lio said MQREIT has successfully renewed 87% of the leases due for renewal in 1H FY16 and is in advanced talks with tenants for the balance leases due for renewal this year.

She said MQREIT's average occupancy rate is resilient at 97.2% in terms of net lettable area as at June 30, 2016.

Besides proactively retaining tenants, Yong said MQREIT also successfully signed new leases with high quality tenants, which included BMW Credit Malaysia Sdn Bhd.

3 August 2016

## MQREIT's net lettable area expiry well spread

MRCB-Quill

Real Estate Investment Trust

(Aug 3, 1031/24)

**Maintain buy recommendation with an unchanged target price (TP) of RM1.34:** MRCB-Quill Real Estate Investment Trust's (MQREIT) first six months of financial year 2016 ended June 30, 2016 (6MFY16) gross revenue of RM63.22 million, which represented a 28.4% growth year-on-year (y-o-y), was translated into a normalised net profit of RM30.6 million, a 29.7% growth y-o-y, accounting for 51.9% and 53.4% of our and the consensus forecasts respectively.

MQREIT declared a dividend of 4.23 sen for the first half of FY16 ended June 30, 2016 (1HFY16), compared with 4.1 sen for 1HFY15, going ex on Aug 16, 2016, representing an annualised yield of 5.05% at a payout ratio of about 91.4%.

Highlights included a resilient revenue growth of 28.4% y-o-y in 1HFY16, due to additional income from Platinum Sentral and step-up rent adjustments, while its bottom line grew higher by 29.7%, given lower repair and maintenance costs this year, mitigated by higher financial costs due to loan drawdowns for acquisition. The overall occupancy rate was healthy at 97.2%, with an 87% renewal rate achieved for lease expiry in 1HFY16. Major asset enhancement initiatives planned for this year involve energy saving and carbon footprint reduction at both Quill Building 1-DHL and Quill Building 4-DHL. Despite an overall lacklustre

office market, we are less concerned about office spaces owned by MQREIT, given its high occupancy rates and long lease terms. Besides, its net lettable area expiry is well spread, with about 13% and 26% expiring in FY17 and FY18 respectively. Following the acquisition of Menara Shell, its asset size now stands at RM2.27 billion.

With additional income from Menara Shell from FY17, management will be able to achieve a greater scale and raise the payout, with proposed partial payment of management via units.

Consequently, distributable income will be lifted. The potential yield-accretive asset injection is expected to be funded via placement exercises with an equity/debt ratio of about 65/35. The gearing ratio is expected to improve to around 40% from 42% post exercise.

Among the risks are a high gearing compared with the industry average, and a slower rental reversion rate for the office market. Positives include a huge pipeline of asset injections from MRCB, Quill and the Employees Provident Fund, and resilient earnings with sustainable distribution per unit.

We maintain our "buy" recommendation with an unchanged TP of RM1.34, based on a targeted yield of 6.5%, which is two standard deviations below the one-year historical average yield spread of MQREIT and 10-year government bonds. — Hong Leong Investment Bank Research, Aug 3

MRCB-Quill Real Estate Investment Trust

| FY DEC (RM MIL)   | 2015A | 2016A | 2017E | 2018E |
|-------------------|-------|-------|-------|-------|
| Revenue           | 115.2 | 132.6 | 165.9 | 189.6 |
| NPI               | 90.3  | 98.8  | 139.2 | 142.0 |
| Net invest income | 98.5  | 100.2 | 140.7 | 143.6 |
| PAT               | 60.7  | 58.9  | 85.1  | 88.7  |
| EPS (sen)         | 10.2  | 8.9   | 7.9   | 8.2   |
| Norm PER (x)      | 13.4  | 13.5  | 15.2  | 14.7  |
| FD PER (x)        | 13.4  | 13.5  | 15.2  | 14.7  |
| EV/EBITDA (x)     | 16.7  | 16.0  | 17.2  | 16.9  |
| Net DPU (sen)     | 8.5   | 8.4   | 8.7   | 9.0   |
| Dist yield (%)    | 7.1   | 7.0   | 7.2   | 7.5   |
| BVPS (RM)         | 1.5   | 1.4   | 1.2   | 1.2   |
| P/B (x)           | 0.8   | 0.9   | 1.0   | 1.0   |

Source: HLB

4 August 2016

## MRCB-Quill REIT revenue in 1HFY16 up 28.4%

► Recommendation:

Buy  
TARGET Price: RM1.34  
by Hong Leong Investment Bank Wtd (HLB) (Aug 3)

Results

MRCB-Quill Real Estate Investment Trust's (MQREIT) 6MFY16 gross revenue of RM63.22m (+28.4% YoY) was translated into normalised net profit of RM30.6m (+29.7% YoY), accounting for 51.9% and 53.4% of HLB and consensus FY forecasts respectively.

Deviations

None.

Dividends

Declared 1HFY16 dividend of 4.23 sen (1H15 4.1 sen), going ex

► MRCB-QUILL REAL ESTATE INVESTMENT TRUST

| FY DEC           | 2015A | 2016A | 2017E | 2018E |
|------------------|-------|-------|-------|-------|
| REVENUE (RM mil) | 115.2 | 132.6 | 165.9 | 189.6 |
| PAT (RM mil)     | 60.7  | 58.9  | 85.1  | 88.7  |
| EPS (sen)        | 10.2  | 8.9   | 7.9   | 8.2   |
| FD PER (x)       | 13.4  | 13.5  | 15.2  | 14.7  |

on Aug 16, 2016, representing an annualised yield of 7.05%, at a payout ratio of circa 91.4%.

Highlights

Resilient revenue growth (+28.4% YoY) in 1HFY16 was due to additional income from Platinum Sentral and step-up rent adjustments, while bottom

line grew higher by 29.7% given lower repairs and main-

tenance cost this year, mitigated by higher financial costs due to loan drawdown for acquisition.

Overall, occupancy rate was healthy at 97.2% with 87% of renewal rate achieved for lease expiry in 1HFY16.

Major asset enhancement initiatives planned for this year involve energy saving and carbon footprint reduction at both

Quill Building 1-DHL and Quill Building 4-DHL, as part of the negotiation during renewals.

Despite the lacklustre office market overall, we are less concerned on the office spaces owned by MQREIT, given its high occupancy rate and long lease term. Besides, its NLA expiry is well spread with circa

13% and 26% expiring in FY17 and FY18.

Following the acquisition of Menara Shell, asset size now stands at RM2.27b. With additional income from Menara Shell from FY17 onwards, management is then able to achieve greater scale and raise the payout and with the proposed partial payment of management via units.

Consequently, distributable income will be lifted. The potential yield accretive asset injection is expected to be funded via placement exercises with an equity/debt ratio of circa 65/35 and gearing ratio is expected to improve to around 40% from 42% post exercise.

Among the risks are a high gearing compared with the industry average, and a slower rental reversion rate for office market.

Positives include a huge pipeline of asset injections from MRCB, Quill and the Employees Provident Fund, and resilient earnings with sustainable DPU.

Negative: 1) High gearing; and 2) major assets in challenging office market.

**Valuation**  
Maintain 'Buy' recommendation with unchanged TP of RM1.34 based on targeted yield of 6.5%.





# IN THE NEWS

cont'd

27 October 2016

## MQReit to establish 20-year MTN programme

KUALA LUMPUR: MRCB-Quill Real Estate Investment Trust (MQReit) is planning to establish a 20-year medium term note (MTN) programme by the end of this year, which will act as a long-term debt financing platform to cater for immediate and future opportunistic acquisitions as well as its future refinancing requirements.

In a press statement yesterday announcing the Reit's third quarter (Q3) and first nine-month (9M) results ended Sept 30, 2016, its manager MRCB Quill Management Sdn Bhd (MQMD) said the MTN programme follows the deferment of maturity of its RM60 million MTN to next March.

MQReit's special purpose entity, Kinabalu Capital Sdn Bhd (KCSB), has successfully obtained its Reit's noteholder approval for the deferment of the expected maturity of the RM60 million MTN from Sept 5, 2016 to March 6, 2017.

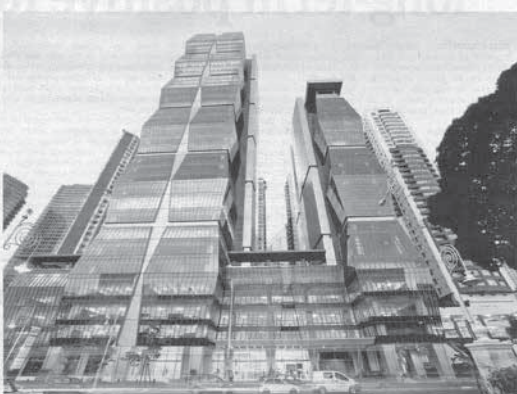
KCSB had also obtained its commercial papers (CP) noteholder approval for a new issuance of CP with a nominal value of RM120 million with a tenure of six months to coincide with the expected maturity of the MTN.

Accordingly, as at Sept 30, MQReit recorded an average debt to maturity of 2.4 years with the deferment of the expected maturity of the above MTN and CP. Its gearing ratio was 42.8% and its average cost of debt remains stable at 4.4% per annum, contributing to the Reit's consistently healthy balance sheet.

MQMD chief executive officer Yong So-Lin said the company aims opportunities to grow MQReit's income stream following the proposed acquisition of Menara Shell.

"The Securities Commission Malaysia had on Sept 27, granted MQReit the approval for the valuation of Menara Shell and the issuance, listing of and quotation for the new MQReit units on Bursa Malaysia Securities Bhd pursuant to the proposed placement and the proposed authority."

"The proposed acquisition is slated to be completed by the end of Q4 2016 and would increase the number of properties under the trust to a total of 11. The completion of this acquisition is expected



Yong sees the acquisition of Menara Shell growing MQReit's income stream. — Picture by MQReit

to contribute to a stable and sustainable income stream with effect from 2017," Yong said.

MQReit announced revised net income of RM15.2 million Q3 for the Reit, a marginal decrease of 3.2% from the revised net income of RM15.7 million reported in Q3 2015.

Yong said notwithstanding the higher net property income, the revised net income for the current quarter was marginally lower mainly due to higher manager's fee, trustee's

fee, valuation fee and administrative expenses.

"We are pleased with MQReit's financial performance even as we continue to weather a subdued macroeconomic environment and challenging office market conditions in Klang Valley," he said.

MQReit's cumulative realised net income for 9M was RM45.9 million, an increase of 21.8% from the cumulative realised net income of RM37.6 million reported in 9M15.

"In terms of renewal of existing leases, our active leasing strategy has enabled us to successfully renew all leases due in Q3 2016.

With this, 64% of leases due up to Q4 2016 have been renewed while 8% of leases were not renewed. We are now on target to finalise the renewal of the balance 28% of leases that are due in the last quarter of 2016."

"MQReit's average occupancy rate as at Sept 30, 2016 continues to be resilient at 97.2% in terms of net lettable area," she said.

## MQReit defers bond programme maturity

> Plans more fund raising to cater to immediate and future opportunistic acquisitions

KUALA LUMPUR: Listed real estate investment trust (REIT) MRCB-Quill Real Estate Investment Trust (MQReit) has obtained approval to defer the maturity of a RM60 million bond due on Sept 5, 2016 and for the issuance of another RM60 million worth of commercial papers for a six-month period to coincide with the maturity of the deferred bond programme on March 6, 2017.

The group said in a statement yesterday that it is also planning a 20-year medium term note programme by the end of the year to cater to immediate and future opportunistic acquisitions as well as future refinancing requirements.

As at Sept 30, 2016 MQReit recorded an

average debt to maturity of 2.4 years with the deferment of the expected maturity of the RM60 million and RM60 million programme. As at Sept 30, 2016, MQReit's gearing ratio was 42.8% and its average cost of debt remains stable at 4.4% per annum.

MQReit announced that its net profit for the third quarter ended Sept 30, 2016 decreased 3.2% to RM15.2 million from RM15.7 million in the corresponding quarter in the preceding year, mainly due to higher manager, trustee, valuation fee and administrative expenses.

MQReit's revenue however was higher by 1.2% at RM45.9 million from RM45.1 million a year ago mainly due to additional

revenue from Platinum Sentral, and higher rental income due to step up rent adjustments from Q16, Q3 and Wisma Tech.

For the nine-month period, its net profit was an increase of 21.8% to RM45.9 million from RM37.6 million reported in the corresponding period in the preceding year.

Revenue for the period was higher by 0.8% at RM156.6 million a year ago mainly due to additional revenue arising from the acquisition of Platinum Sentral and rental rate increases of some properties.

MRCB-Quill Management Sdn Bhd (MQMD) CEO Yong So-Lin is pleased with MQReit's financial performance even as it continues to weather a subdued macroeconomic environment and challenging office market conditions in the Klang Valley.

## MQ REIT posts higher revenue in third quarter

But net income comes in 3.2% lower

PETALING JAYA: MRCB-Quill Real Estate Investment Trust (MQReit) reported a 2.2% increase in gross revenue at RM156.6 million for the third quarter ended Sept 30 compared with the same quarter a year ago.

However, it posted a realised net income of RM15.2 million, which was 3.2% lower than the corresponding period last year.

Notwithstanding the 3.2% higher net property income of RM45.9 million, the current quarter's realised net income was marginally lower than last year, mainly due to higher manager's fee, trustee's fee, valuation fee and administrative expenses.

On a cumulative nine-month basis, MQReit's realised net income grew by 21.8% to RM45.9 million compared to the same period last year.

Its net property income was 20.9% higher at RM45.9 million with gross revenue increased at a slower pace of 0.8% to RM156.6 million.

"We are pleased with MQReit's financial performance even as we continue to weather a subdued macroeconomic environment and challenging office market conditions in Klang Valley."

"MQReit's growth opportunity that will augment MQReit's income stream is the proposed acquisition of Menara Shell."

"The proposed acquisition is slated to be completed by the end of the fourth quarter this year and would increase the number of properties under the trust to a total of 11."

MQMD CEO Yong So-Lin is pleased with MQReit's financial performance even as it continues to weather a subdued macroeconomic environment and challenging office market conditions in the Klang Valley.

The completion of the acquisition exercise is expected to contribute to a stable and sustainable income stream to MQ REIT, with effect from the first quarter of next year. Besides that, MQ REIT also plans to set up a 20-year medium term note (MTN) programme by the end of this year.

This would be a long-term debt financing platform to cater for immediate and future opportunistic acquisitions as well as future refinancing requirements.

MQ REIT added that KCSB obtained commercial papers (CP) noteholder approval for a new issuance with a nominal value of RM120 million with a tenure of six months to coincide with the expected maturity of the MTN.

As at Sept 30, 2016, MQ REIT's gearing ratio was 42.8% and average cost of debt remains stable at 4.4% per annum.

"In terms of renewal of existing leases, our active leasing strategy has enabled us to successfully renew all leases due in the third quarter this year."

"With this, 64% of leases have been renewed while 8% of leases were not renewed. We are now on target to finalise the renewal of the balance 28% of leases that are due in the last quarter of 2016."

MQ REIT's average occupancy rate as at Sept 30, 2016 continues to be resilient at 97.2% in terms of net lettable area," said Yong.



Yong sees the growth opportunity that will augment MQ REIT's income stream is the proposed acquisition of Menara Shell.

## MRCB-Quill REIT sees marginal growth in net property income in 3Q

BY WONG EE LIN

KUALA LUMPUR: MRCB-Quill Real Estate Investment Trust (MQReit) saw a marginal

growth in its net property income to RM25.53 million in the third quarter ended Sept 30, 2016 (3QFY16) from RM25.49 million a year ago, dragged down by higher property operating expenses due to higher repair and maintenance costs incurred.

Net income fell 3.2% to RM15.23 million or 2.3 sen a unit in 3QFY16 from RM15.73 million or 2.38 sen a unit in 3QFY15, mainly due to higher manager's fee, trustee's fee, valuation fee and administrative expenses.

Revenue, however, rose 2.2% to RM152.5 million from RM151.81 million, thanks to additional revenue from Platinum Sentral.

For the cumulative nine months ended Sept 30, 2016 (9MFY16), MQReit's net property income jumped 20.8% to RM45.9 million compared with RM37.6 million in 9MFY15.

Net income also rose 21.8% to RM45.9 million from RM37.6 million, while revenue grew 0.8% to RM156.6 million from RM156.0 million.

In a statement yesterday, MRCB Quill Management Sdn Bhd (MQMD), the manager of MQReit, said MQReit plans to establish a 20-year medium term note (MTN) programme by the end of this year.

This MTN programme will act as a long-term debt financing platform to cater for immediate and future opportunistic acquisitions as well as its future refinancing requirements.

As at Sept 30, 2016, MQReit's gearing ratio was 42.8% and its average cost of debt remained stable at 4.4% per year.

MQMD chief executive officer Yong So-Lin said MQReit's growth opportunity that will augment MQReit's income stream is the proposed acquisition of Menara Shell.

Lin said another growth opportunity that will augment MQReit's income stream is the proposed acquisition of Menara Shell.

The Securities Commission Malaysia had on Sept 27, 2016 granted MQReit the approval for the valuation of Menara Shell and the issuance, listing of and quotation for the new MQReit units on Bursa Malaysia Securities Bhd pursuant to the proposed placement and the proposed authority."

"The proposed acquisition is slated to be completed by end of Q4 2016 and would increase the number of properties under the trust to a total of 11. The completion of this acquisition exercise is expected to contribute to a stable and sustainable income stream with effect from 2017," Yong added.

In terms of the renewal of the existing leases, 64% of MQReit's leases due up to 3QFY16 have been renewed, while 8% of the leases are not renewed.

"We are now on target to finalise the renewal of the balance 28% of the leases that are due in the last quarter of 2016."

MQReit's average occupancy rate as at Sept 30, 2016 continues to be resilient at 97.2% in terms of net lettable area," said Yong.

MQMD expects the performance of MQReit's portfolio to remain stable, adding that it will continue to focus on its tenant retention strategy and to explore acquisition opportunities to grow the trust.

Currently, MQReit owns 10 buildings comprising five in Cyberjaya, three in Kuala Lumpur, one each in Shah Alam and Petaling, valued at RM1.57 billion as at Dec 31, 2015.

MQMD is owned by Malaysian Resources Corp Bhd (41%), Quill Resources Holding Sdn Bhd (38%) and Global Lejaka Sdn Bhd (20%).

## MRCB-Quill nets RM15.2m in profit for 3Q

BY NG MIN DHEN

MRCB-Quill REIT (MQReit) has registered a profit of RM15.2 million for the third quarter (Q3) ended Sept 30, 2016, marginally lower than the RM15.7 million profit recorded a year ago.

Net property income for the 3Q was slightly higher at RM25.53 million compared to RM25.49 million a year earlier.

Revenue rose to RM152.5 million for the period from RM151.81 million last year due to additional revenue from Platinum Sentral and higher rental income due to step-up rent adjustments in its properties like Quill Building 2, Q16, Q3 and Wisma Tech.

MRCB-Quill Management Sdn Bhd, which manages the commercial real estate investment trust (REIT), noted the

financial performance was amid a subdued macroeconomic environment and challenging office market conditions in the Klang Valley.

"Another growth opportunity that will augment MQReit's income stream is the proposed acquisition of Menara Shell."

"The Securities Commission had on Sept 27, 2016 granted MQReit the approval for the valuation of Menara Shell and the issuance, listing of and quotation for the new MQReit units on Bursa Malaysia Securities Bhd pursuant to the proposed placement and the proposed authority."

"The proposed acquisition is slated to be completed by the end of this year Q4 and would increase the number of properties under the trust to 11. The completion of this acquisition is expected to contribute to a stable and sustainable

income stream with effect from the Q4 2017."

"In terms of renewal of existing leases, our active leasing strategy has enabled us to successfully renew all leases due in Q3 2016."

With this, 64% of leases due up to 3Q have been renewed while 8% of leases were not renewed.

"We are now on target to finalise the renewal of the balance 28% of leases that are due in the last quarter of 2016."

MQReit's average occupancy rate as at Sept 30 continues to be resilient at 97.2% in terms of net lettable area," Yong added.

The commercial REIT is also planning to establish a 20-year medium term note (MTN) programme by the end of this year.

This MTN programme will act as a long-term debt financing platform to cater for immediate and future opportunistic acquisitions as well as its future refinancing requirements.

As at Sept 30, 2016, MQReit's gearing ratio was 42.8% and its average cost of debt remains stable at 4.4% per annum.

MQMD plans to establish a 20-year medium term note (MTN) programme by the end of this year.

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## MRCB-Quill REIT

Target price: RM1.41 OUTPERFORM



RESEARCHERS (DVP) say MQReit's earnings prospects appear solid as it has recently fully-rented assets with long-term leases. Leverage from property occupancy flexibility at over 97% with minimal lease expiry. It is backed by two sponsors - Malaysian Resources Corp Bhd with a 41.3% stake and Quill Group, 37.7% - allowing opportunities for minority acquisitions.

With the placement in 4Q, MQReit's market capitalisation will increase to RM1.4 billion (from RM1.3 billion), moving into the large cap Malaysian REIT (DREIT) space. This offers better trading liquidity and added institutional demand building from placements to the Employees Provident Fund.

We believe the stock is still trading at a discount to large-cap REITs, with estimated gross yields of 4.9% (FY17) with a 3.5% yield to 3.8% for large-cap REITs under our coverage, despite its stable earnings profile.

We expect earnings of RM5.9 million, RM12 million and RM13.5 million for FY16, FY17 and FY18 respectively, implying over earnings growth of 8%, 16% and 4%, mainly because of Menara Shell, which is expected to fully contribute to the FY18.

14 November 2016

# IN THE NEWS

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## MQREIT: No plans to go into property development yet

Instead, it will competently manage properties in its portfolio

BY SUFYAN ZUBAIRAN  
S. SUFYAN ZUBAIRAN@THEIR

KUALA LUMPUR: MQREIT Quill Management Sdn Bhd, the manager of MQREIT Quill Real Estate Investment Trust (MQREIT), said it has no plans to conduct any property development activities or go into property development in the REIT's portfolio by the Securities Commission Malaysia (SC) in July.

To recap, the REIT had released a consultation paper seeking public feedback on proposed amendments to its constitution, which included a proposal for REITs to acquire vacant land and also conduct property development subject to a cap of 10% of their total asset value.

However, MQREIT Quill chief executive officer Yang Li said that such activities would not be in the interests of MQREIT's investors.

"At this point, we are not holding anything. But if we were to acquire anything, we would take into consideration the REIT's portfolio and the interests of its investors, whether their interests would be compromised," she said.

MQREIT Quill chairman Tan Sri Lee Choo Seng said MQREIT will be sticking to its core competency of

managing properties in its portfolio. "There are many considerations (land development), companies around it and it is a very complex proposition before we could consider it," he said.

Among the 10 properties under the group's management are Quill Building 1 and Quill Building 4 in Cyberjaya, which houses the offices of major client DBL, the Quill Building (which houses HSBC's data processing office in Cyberjaya), as well as various business hotels in Kuala Lumpur.

At the group's AGM yesterday, its shareholders approved the REIT's proposed acquisition of the 11th property, Menara Shell in Kuala Lumpur, for RM488 million, as well as its plan to invest in bond for acquisitions.

Shareholders of Menara Shell will bring MQREIT's total asset value from RM1.4 billion to RM2.27 billion by the end of the year, pending the acquisition of the 11th property.

"We have been very active in the market, but we are not holding anything. But if we were to acquire anything, we would take into consideration the REIT's portfolio and the interests of its investors, whether their interests would be compromised," she said.

MQREIT Quill chairman Tan Sri Lee Choo Seng said MQREIT will be sticking to its core competency of

## MQREIT asset portfolio to hit RM2.3b by year-end

Acquisition of Menara Shell to be completed this month, boosting MQREIT's yield growth going forward

BY LIZAT RAZI

KUALA LUMPUR: MQREIT Quill Management Sdn Bhd (MQREIT) expects its total asset portfolio to increase 65% to RM2.27 billion by year-end, compared to RM1.4 billion in 2015, during which it acquired Menara Shell.

MQREIT Quill Management Sdn Bhd (MQREIT) chairman Tan Sri Lee Choo Seng said the acquisition of Menara Shell, which is expected to be completed this month, will boost the REIT's growth going forward.

"The building is strategically located, having a 90% occupancy rate with long-term tenants and Shell Building Cyberjaya, which is a five-story modern and five-story business park."

The acquisition will be funded through prime placement of RM1.2 billion and MQREIT's existing cash and debt.

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Lee Choo Seng and Yang Li at a press conference after the AGM. Yang says the office market will be relatively challenging with surplus inventory supply expected in 2017.

Yang said the office market will be relatively challenging with surplus inventory supply expected in 2017, as it is not in line with a strong demand for office space.

In a filing to Bursa Malaysia, MQREIT noted a significant increase in revenue of RM2.09 million for the third quarter of 2016 compared to RM1.81 million in 2015.

"The company's revenue increased by RM1.28 million compared to RM1.28 million previously."

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## MQREIT placement shares priced at RM1.20 each

BY LIZAT RAZI

KUALA LUMPUR: MQREIT Quill Real Estate Investment Trust (MQREIT) said the issue price of its placement units has been fixed at RM1.20 per unit.

This represents a discount of about 1.74% or 2.13 sen to the five-day volume weighted average market price of the units up to yesterday of RM1.2213, adjusted for the dividend of 4.15 sen per unit.

It said in a filing with Bursa Malaysia.

The placement is aimed at raising money to part finance MQREIT's acquisition of Menara Shell for RM488 million from 348 Sentral Sdn Bhd, a unit of Malaysian Resources Corp Bhd (MRCB).

"A total of 406.6 million units will

be allocated to selected investors, including to MRCB and the EPF (Employees Provident Fund), representing approximately 61.48% of the existing units in circulation of 661.4 million units."

"Accordingly, the proposed placement will raise gross proceeds of approximately RM487.9 million," said MQREIT.

MQREIT previously said that it believes the acquisition of Menara Shell is in line with its objective of providing long-term and sustainable distribution of income to unitholders and to achieve long-term growth in its net asset value, a growth catalyst and competitive strength of the property that fits well into MQREIT's clientele requirements.

## MRCB-Quill REIT to raise RM488mil

KUALA LUMPUR: MRCB-Quill REIT is expected to raise RM487.942mil in gross proceeds from the proposed placement of 406.619 million new shares at RM1.20 a unit.

In a filing with Bursa Malaysia yesterday, MRCB-Quill REIT said the proposed placement would be allocated to selected investors including Malaysian Resources Corporation Bhd (MRCB) and the Employees Provident Fund. The proceeds would partly fund the company's acquisition of Menara Shell, a commercial development consisting of a 33-storey office tower with a five-storey podium and a four-storey basement car park in Kuala Lumpur Sentral - Bernama



MQREIT Quill Management Sdn Bhd chairman Tan Sri Lee Choo Seng and CEO Yang Li at a press conference after the AGM. Yang says the office market will be relatively challenging with surplus inventory supply expected in 2017.

## MQREIT asset profile set to hit RM2.27b

BY SUFYAN ZUBAIRAN

KUALA LUMPUR: MQREIT Quill REIT's asset portfolio is expected to increase to RM2.27 billion from RM1.4 billion, as it is not in line with a strong demand for office space.

In a filing to Bursa Malaysia, MQREIT noted a significant increase in revenue of RM2.09 million for the third quarter of 2016 compared to RM1.81 million in 2015.

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31 December 2016

## 'REITs' fundamentals still intact

Trusts continue to command premium despite spike in MGS yields — analysts

BY JAMAL NAJIB IZATI

KUALA LUMPUR: While the spike in Malaysian Government Securities (MGS) 10-year yield has made real estate investment trusts (REITs) relatively less attractive, analysts said the fundamentals of REITs are still intact and are still commanding a premium over MGS yields.

The spread between MGS and REITs dividend yields was a clear indication of REITs' value as a corporate investment, said the analysts.

"The spike in MGS yields makes REITs less attractive, but the fundamentals are still intact. Looking at the REITs' annual returns, they are still higher than MGS yields," said

analysts. REITs are still more attractive than MGS, said the analysts.

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## IN THE NEWS

cont'd

## MQREIT records smaller Q4 net profit

PETALING JAYA: MRCB-Quill REIT's (MQREIT) net profit for the fourth quarter ended Dec 31, 2016, fell 16.2% to RM59.2 million from RM69.5 million a year ago due to higher expenses and costs as well as lower net property income.

In a filing with Bursa Malaysia yesterday, MQREIT said property operating expenses were higher by 46.2% due to higher repair and maintenance costs incurred during the quarter. It also incurred finance costs of RM6.1 million and manager's fee of RM2.47 million during the quarter.

Revenue for the quarter rose 3.3% to RM65.9 million from RM63.6 million a year ago due to additional revenue from Menara Shell, higher rental income due to step-up rent adjustments from Quill Building 3-HSBC, Quill Building 3-BMW and Wisma Technip.

For financial year ended Dec 31, 2016 (FY16), net profit rose 9.2% to RM239.4 million from RM219.4 million a year ago. Overall, the realised net property income rose 12.3% to RM203.3 million although property operating expenses were higher by 16.4% due to the acquisition of Menara Shell and Platinum Sentral.

Revenue for the year rose 12.5% to RM659.6 million from RM586.3 million a year ago.

MQREIT expects the office market to remain challenging with the slowdown of the global and domestic economies and low crude oil prices. Despite the dampened take-up rates in the Klang Valley, it is confident that its tenant retention strategies will ensure that performance remains stable this year.

In 2016, 3% of the 7% of the total net lettable area (NLA) due for renewal has been renewed. In 2017, 14% of the total NLA is due for renewal and negotiations for renewal have already started.

MQREIT's asset portfolio size as at Dec 31, 2016 stood at RM2.22 billion. Its average occupancy rate for FY16 stood at 98% in terms of NLA.

## MQREIT's 4Q NPI falls 4.5% as expenses, finance costs rise

BY TIMIE YONG

KUALA LUMPUR: MRCB-Quill REIT (MQREIT)'s net property income (NPI) fell 4.5% to RM203.3 million in the fourth quarter ended Dec 31, 2016 (4QFY16), from RM213.9 million a year ago, as it recorded higher property operating expenses due to higher repair and maintenance costs, and higher finance costs from higher borrowings.

In income for distribution was down 10.8% to RM133.3 million from RM150.3 million a year ago, though revenue gained 3.3% to RM659.6 million from RM636.3 million, mainly due to additional revenue from Menara Shell, and higher contributions from rent increments at Q82, Q83 and Wisma Technip.

For the full year (financial year 2016 (FY16)), the real estate investment trust's net property income rose 12.3% to RM203.3 million, from RM181.3 million in FY15, its financial year previously closed.

Total income for distribution grew 5.5% to RM133.3 million, from RM126.5 million in FY15, as revenue for FY16 grew 13.6% to RM659.6 million, from RM586.3 million. However, distribution per unit (DPU) was at 8.38 sen compared with 8.47 sen in FY15.

In a statement, MRCB Quill Management Sdn Bhd (MQM), the manager of the REIT, said FY16's DPU of 8.38 sen, which

comprised an interim distribution of 4.23 sen and a special distribution of 4.15 sen, is similar to the normalised FY15 DPU of 8.38 sen (less the distribution of a one-off gain on divestment of properties of 0.09 sen per unit). Both distributions were paid to unitholders on Sept 8 last year and Jan 13, 2017 respectively.

The trustee of MQREIT and the board of the manager direct or authorised any further distributions for FY16, it said, adding that the FY16 DPU of 8.38 sen translates into a distribution yield of 6.08% based on the closing price of RM1.26 per unit on Dec 30, 2016.

MQM chief executive officer Yong Su-Lin said the REIT saw 87% lease renewals in 2016, together with low vacancies, that gives MQREIT an average occupancy rate of 98% for FY16 in terms of net lettable area.

"(With respect to) MQREIT's capital management, the manager has continued negotiations with financial institutions for the refinancing of MQREIT's RM150 million CP/MTN programme and is on track to complete the refinancing by early March."

"As at Dec 31, 2016, 68% of MQREIT's total borrowings were on fixed interest rates. As part of our capital management strategy to maintain majority of fixed rate borrowings, we will continue to monitor the interest rate environment to lock in fixed interest rates at an appropriate time via interest rate swaps," she added.

## MRCB-Quill REIT properties worth RM2.2b

by ARISY YUSOF

MRCB-QUILL Real Estate Investment Trust's (MQREIT) current market valuation and revaluation surplus of the company's properties are collectively worth RM2.2 billion as of Dec 31, 2016.

MQREIT said the net asset value per unit of MREIT after the proposed final distribution will be RM1.27 upon incorporation of the revaluation surplus of RM3.5 million.

Chairman Tan Sri Saw Choo Boon said 2016 was another significant year for MQREIT with the completion of the acquisition of Menara Shell on Dec 22.

"With this and after recognising a fair value gain on investment properties of



Saw says 2016 was another significant year for MQREIT with the completion of the acquisition of Menara Shell on Dec 22

RM3.5 million, MQREIT's asset portfolio size expanded from RM1.63 billion as at Dec 31, 2015, to RM2.22 billion as at Dec 31, 2016," he said in a

statement yesterday.

Saw said despite the challenging operating environment, the company has managed to maintain a steady performance for financial year 2016.

"This satisfactory result is attributable to MQREIT's portfolio of quality and resilient commercial assets, which are strategically located across the Klang Valley and Penang," he added.

The properties include the Quill Building 1 (Q81) (DHL, J) and Q84 (DHL, 2), Q82 (HSBC), Q83 (BMW), part of Plaza Mont' Kiara, Wisma Technip, Q85 (IBM), Q88 (DHL, XF), Tesco Building Penang, Platinum Sentral and Menara Shell.

The company also posted a revenue of RM38.93 million for

the fourth-quarter ended Dec 31, 2016 (4Q16), from RM37.69 million recorded a year ago, attributable to additional revenue from Menara Shell and higher rental income due to step-up rent adjustments from Q82, Q83 and Wisma Technip.

Its net profit decreased by 18.8% to RM59.2 million for the period from RM69.5 million a year ago, due to higher property operating expenses by 46.2% for repairs and maintenance costs incurred, as well as higher finance costs for borrowings in the 4Q16.

The company said the office market is expected to remain challenging, with the slowdown in global and domestic economies and low crude oil prices.

Meanwhile, MQREIT CEO

Yong Su-Lin said the manager's active leasing and asset management strategy throughout the year has ensured successful tenant renewals of 87% for the leases due in 2016.

"On the back of this as well as new tenancies entered during the year, MQREIT's average occupancy rate for the year stood at 98% in terms of net lettable area (NLA)," she said.

For 2017, MQREIT said it has about 14% of its leases based on NLA that are due for renewal, with the bulk of the leases due after the second-half of 2017.

"We have initiated early negotiations for some of these lease renewals as we remain committed to ensuring high tenant retention and delivering a stable income distribution to our unitholders in 2017."

## MQREIT records RM59.2m realised net income

KUALA LUMPUR: MRCB-Quill REIT (MQREIT) achieved a realised net income of RM59.2 million for the fourth quarter of 2016 while achieving a total of RM59.2 million in realised net income for the financial year 2016.

The performance resulted in an earnings per unit (EPU) of 8.80 sen for the financial year ending Dec 31, 2016 (FY16).

In a statement released by MRCB Quill Management Sdn Bhd (MQM) yesterday, the company said the income represents an increase by 16.7% in comparison to the normalised realised net income excluding one-off gains on divestment of properties

of RM13.4 million recorded for FY15.

However, notwithstanding the higher FY16 realised income, the EPU of 8.80 sen was 1.8% lower than the normalised EPU excluding one-off gains on divestments of properties of 8.96 sen for FY15.

It was locked by the higher weighted average number of MQREIT unit recorded in FY16 arising from the issuance of 466,619,000 new MQREIT units on Dec 22, 2016, pursuant to the replacement exercise.

MQM chairman Tan Sri Saw Choo Boon said last year was another significant year for MQREIT with the completion of the ac-

quisition of Menara Shell.

"With this and after recognising a fair value gain on investment properties of RM3.5 million, MQREIT asset portfolio size has expanded from RM1.63 billion as at Dec 31, 2015, to RM2.22 billion as at Dec 31, 2016."

Saw said the result is attributed to MQREIT's portfolio of quality and resilient commercial assets which are strategically located across Klang Valley and Penang.

"We expect the office market to remain challenging but we believe that MQREIT will remain resilient underpinned by our proactive approach towards asset, portfolio

and cost management," he said.

MQM chief executive officer Yong Su-Lin said the managers active leasing and asset management strategy throughout the year has ensured a success rate of 87% in tenant renewal for leases last year.

"On the back of this as well as new tenancies entered during the year, MQREIT average occupancy rate stood at 98% in terms of Net Lettable Area (NLA)," Yong said.

Approximately 14% of its leases are based on NLA that are due for renewal with a bulk of the leases due in the second half of the year.

## MQREIT realised net income down 18.8% in Q4

PETALING JAYA: MRCB-Quill REIT

Real Estate Investment Trust (MQREIT) posted an 18.8% drop in realised net income of RM59.2 million for the fourth quarter ended Dec 31, 2016, compared to the same quarter a year ago on the back of higher economic conditions.

Gross revenue was up 3.3% to RM659.6 million as the REIT's manager, MRCB Quill Management Sdn Bhd, continued with an active leasing and management strategy.

The REIT manager said in a filing with Bursa Malaysia that on a full year basis, MQREIT posted a realised net income of RM59.2 million while gross revenue was 13.4%

higher at RM136.6 million.

Earnings per unit was at 8.80 sen for the financial year ended Dec 31, 2016 (FY16), representing an increase of 16.7% compared to the normalised realised net income excluding one-off gains on divestments of properties of RM83.4 million recorded for FY15.

Notwithstanding the higher FY16 realised net income, the earnings per unit of 8.80 sen for FY16 is 1.8% lower than the normalised earnings per unit excluding one-off gains on divestment of properties of 8.96 sen for FY15, it said.

It added that distribution per unit of 8.38 sen for FY16 was similar to

the normalised distribution in FY15 less the distribution of a one-off gain on divestment of properties of 0.09 sen per unit.

Meanwhile, the REIT's chairman Tan Sri Saw Choo Boon said in a statement that last year was another significant year for the REIT with the completion of the acquisition of Menara Shell and with the fair value gain on investment properties, which saw its asset portfolio size expanded to RM2.22 billion as at Dec 31, 2016.

"Despite the challenging operating environment, MQREIT has managed to maintain a steady performance for FY16."

"This satisfactory result is attributable to MQREIT's portfolio of quality and resilient commercial assets, which are strategically located across the Klang Valley and Penang," he said, adding that the office market outlook remained challenging.

The REIT manager's chief executive officer Yong Su-Lin said a strategy of active leasing and asset management throughout the year has ensured successful tenant renewals of 87% for the leases due last year.

"On the back of this as well as new tenancies entered during the year, MQREIT's average occupancy rate for the year stood at 98% in terms of net lettable area," she said.

26 January 2017

## TRUST STRUCTURE

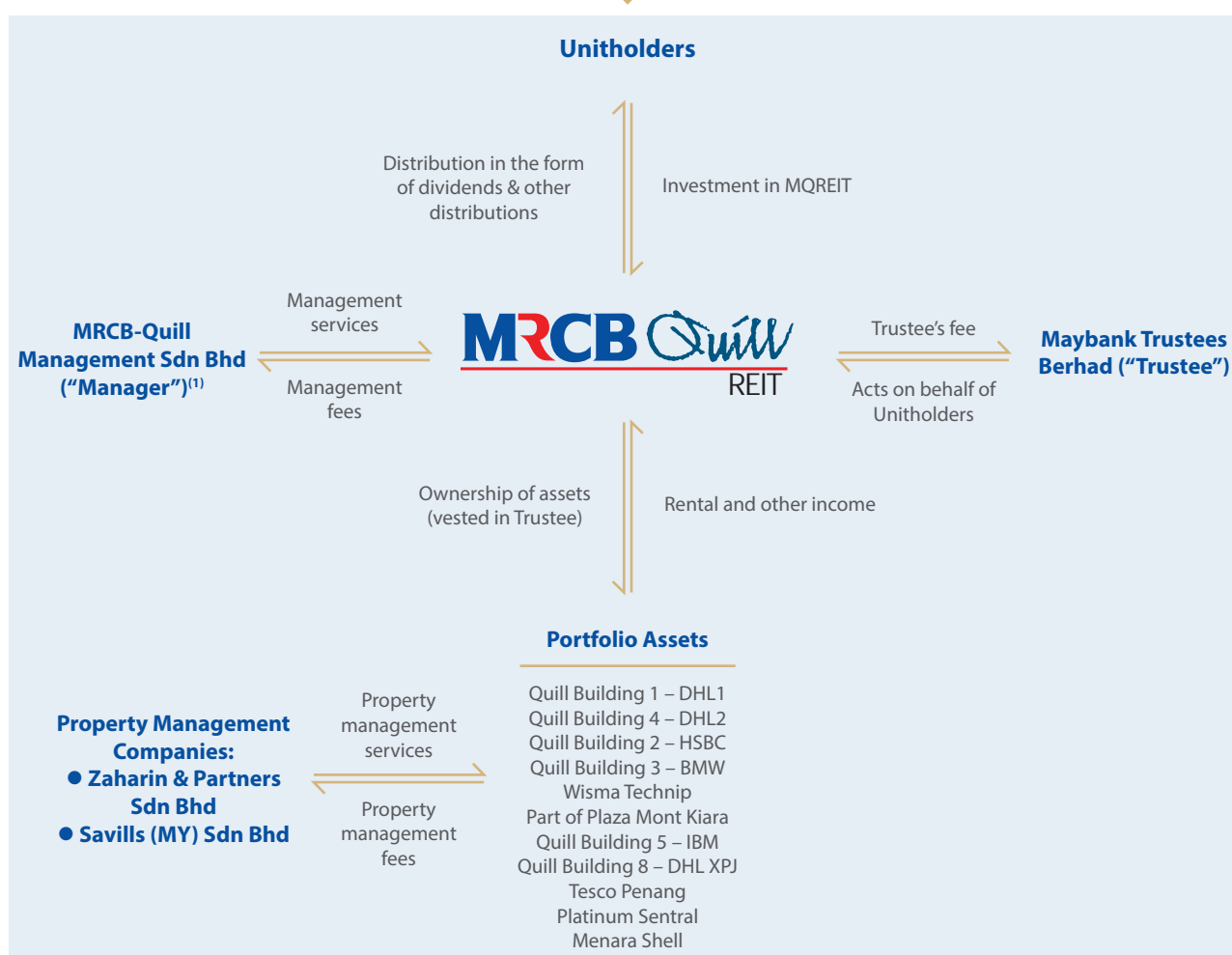
### BACKGROUND OF MQREIT

Listed as Quill Capita Trust on 8 January 2007. Changed its name to its present name on 2 April 2015 following the change of sponsors.

### INVESTMENT OBJECTIVES

To acquire and invest in commercial properties primarily in Malaysia with a view to provide long-term growth and sustainable distribution of income to unitholders to achieve long-term growth in the net asset value ("NAV") per Unit.

### MQREIT STRUCTURE



Note:

(1) Shareholders of the Manager comprise of Malaysian Resources Corporation Bhd ("MRCB") (41%), Quill Resources Holding Sdn Bhd (39%), and Global Jejaka Sdn Bhd (20%).



## BOARD OF DIRECTORS OF THE MANAGER



| Name                                     | Nationality | Designation   |
|--|-------------|---|
| <i>Standing from the left to right:</i>  |             |   |
| <b>Dato' Thanarajasingam Subramaniam</b> | Malaysian   | <i>Non-Independent Non-Executive Director</i>           |
| <b>Aminuddin Bin Mohd Arif</b>           | Malaysian   | <i>Independent Non-Executive Director</i>               |
| <b>Foong Soo Hah</b>                     | Malaysian   | <i>Independent Non-Executive Director</i>               |
| <b>Dato' Michael Ong Leng Chun</b>       | Malaysian   | <i>Non-Independent Non-Executive Director</i>           |
| <b>Tan Sri Saw Choo Boon</b>             | Malaysian   | <i>Chairman, Non-Independent Non-Executive Director</i> |
| <b>Dato' Dr. Low Moi Ing, J.P.</b>       | Malaysian   | <i>Non-Independent Non-Executive Director</i>           |
| <b>Dr. Roslan Bin A. Ghaffar</b>         | Malaysian   | <i>Independent Non-Executive Director</i>               |
| <b>Kwan Joon Hoe</b>                     | Malaysian   | <i>Non-Independent Non-Executive Director</i>           |
| <b>Ann Wan Tee</b>                       | Malaysian   | <i>Non-Independent Non-Executive Director</i>           |

## PROFILE OF DIRECTORS OF THE MANAGER



### TAN SRI SAW CHOO BOON, 71

*Chairman and Non-Independent Non-Executive Director  
Malaysian, Male*

|                                 |                      |
|---------------------------------|----------------------|
| Date of appointment as director | : 22 January 2016    |
| Length of service as director   | : 1 year and 1 month |

**Board Committee(s) served on:**  
Nil

### Academic/Professional Qualification(s)/Professional Membership(s):

Bachelor of Science (Chemistry), University of Malaya (1969)

### Present Directorship(s):

#### Listed

RHB Bank Berhad  
DiGi.Com Berhad  
Ranhill Holdings Berhad

#### Unlisted

MRCB Quill Management Sdn Bhd (the manager of MRCB-Quill REIT)  
RHB Investment Bank Berhad  
RHB Capital Berhad (In Member's Voluntary Winding Up)  
Phoenix Petroleum (M) Berhad  
Integrated Petroleum Berhad

#### Others

Co-Chair the Government's Public-Private Sector Special Task Force on Facilitating Business (PEMUDAH)

### Working Experience:

Tan Sri Saw Choo Boon joined Shell in 1970 as a Refinery Technologist in Shell Refining Company (FOM) Bhd. He then served in various capacities in manufacturing, supply, trading and planning in Malaysia, Singapore and Netherlands. In 1996, Tan Sri Saw was appointed as the Managing Director of Shell MDS (Malaysia) Sendirian Berhad. In 1998 - 1999, he assumed the positions of Managing Director for Oil Products (Downstream) Shell Malaysia and Managing Director of Shell Refining Company (FOM) Bhd.

In 1999, with the globalisation of the Shell Oil Products business, Tan Sri Saw was appointed as the Vice-President of the commercial business in the Asia-Pacific region and in 2004 he became the President of Shell Oil Product East. In 2005, he assumed the role of Vice-President Global Marine Products. Tan Sri Saw was appointed the Chairman of Shell Malaysia on 1 March 2006 and from 1 January 2010, he served as the Senior Advisor of Shell Malaysia until his retirement on 30 June 2010.

Other than as disclosed, he does not have any family relationship with any director and/or major unitholder of MQREIT. He does not have personal interest in any business arrangements involving MQREIT and has not been convicted of any offences within the past 10 years.



### DATO' DR. LOW MOI ING, J.P., 56

*Non-Independent Non-Executive Director  
Malaysian, Female*

|                                 |                         |
|---------------------------------|-------------------------|
| Date of appointment as director | : 12 June 2006          |
| Length of service as director   | : 10 years and 8 months |

**Board Committee(s) served on:**  
Audit Committee

### Academic/Professional Qualification(s)/Professional Membership(s):

Doctor of Philosophy in Design, Millennium International University, State of Delaware, U.S.A (2010)  
Doctor of Philosophy in Entrepreneurship (Honoris Causa) (2010)

### Present Directorship(s):

#### Unlisted

MRCB Quill Management Sdn Bhd (the manager of MRCB-Quill REIT)  
Quill Group of Companies ("Quill Group")

### Working Experience:

Dato' Dr. Low Moi Ing, J.P. started her career with MAA Architect in 1981 and in 1986, set up Quill Design. The Quill Group was set up in 1988 and is involved in the investment of properties, which includes integrated property development, construction, interior design and architectural services. She is in charge of the Quill Group's strategic planning and jointly manages the finance, administration, legal, property development, building construction and renovation, procurement and project management of the Quill Group.

Other than as disclosed, she does not have any family relationship with any director and/or major unitholder of MQREIT. She does not have personal interest in any business arrangements involving MQREIT and has not been convicted of any offences within the past 10 years.

### Awards:

Women Entrepreneur of the Year Award (2009) by Malaysia Business Leadership Awards 2009  
Masterclass Woman CEO of the Year Award (2010) by Malaysia Business Leadership Awards 2010  
International Leadership Award in Construction Sector by Middle East Business Leaders Summit and Awards 2010  
FIABCI Property Woman of the Year Award (2011) by FIABCI  
Woman Entrepreneur of the Year Award (2011) by the Asia Pacific Entrepreneurship Awards 2011

# PROFILE OF DIRECTORS OF THE MANAGER

cont'd



**DATO' MICHAEL ONG LENG CHUN, 60**

*Non-Independent Non-Executive Director  
Malaysian, Male*

|                                 |                         |
|---------------------------------|-------------------------|
| Date of appointment as director | : 12 June 2006          |
| Length of service as director   | : 10 years and 8 months |

**Board Committee(s) served on:**  
Executive Committee

**Academic/Professional Qualification(s)/Professional Membership(s):**

Chartered Architect (1982)  
Lembaga Akitek Malaysia (LAM) (1987)  
Corporate Member, the Royal Institute of British Architects (RIBA) (1984)  
Corporate Member, Pertubuhan Akitek Malaysia (PAM) (1987)  
Corporate Member, Institut Perakabentuk Dalam (IPDM) (1995)

**Present Directorship(s):**

Unlisted

MRCB Quill Management Sdn Bhd (the manager of MRCB-Quill REIT)  
Quill Group of Companies ("Quill Group")

**Working Experience:**

Educated in the United Kingdom, Dato' Michael Ong graduated as a Chartered Architect in 1982 and practised in London until 1984 when he returned to Malaysia. He is one of the two founding partners of the Quill Group. The Quill Group was set up in 1988 and is involved in the investment of properties, which includes integrated property development, construction, interior design and architectural services. The Quill Group's strength lies in the integration of IT services into the building environment and is currently practising the "Own, Build and Lease" model for its developments. Dato' Michael Ong is responsible for and has extensive experience in the design, detailing and construction of properties within the Quill Group.

Other than as disclosed, he does not have any family relationship with any director and/or major unitholder of MQREIT. He does not have personal interest in any business arrangements involving MQREIT and has not been convicted of any offences within the past 10 years.



**DATO' THANARAJASINGAM SUBRAMANIAM, 66**

*Non-Independent Non-Executive Director  
Malaysian, Male*

|                                 |                       |
|---------------------------------|-----------------------|
| Date of appointment as director | : 31 December 2015    |
| Length of service as director   | : 1 year and 2 months |

**Board Committee(s) served on:**  
Nil

**Academic/Professional Qualification(s)/Professional Membership(s):**

Bachelor of Arts, University of Malaya  
Masters of Arts, New York University

**Present Directorship(s):**

Listed

OSK Ventures International Berhad  
OSK Holdings Berhad

Unlisted

MRCB Quill Management Sdn Bhd (the manager of MRCB-Quill REIT)  
Mestari Adjusters Sdn Bhd

Others

Member of the Ambassadorial Advisory Panel of InvestKL

**Working Experience:**

Dato' Thanarajasingam has an extensive experience in both the public and private sectors. He has served as a Malaysian diplomat for more than 36 years including as Malaysian Ambassador to France and Portugal from 2006 to 2010 and Ambassador to Brazil, Venezuela, Suriname and Guyana from 1998 to 2001. He had also served as the Chief of Staff to the President of the United Nations General Assembly in 1997. At home, he rose to become Deputy Secretary General for Multilateral Affairs, Ministry of Foreign Affairs Malaysia after being Director General for ASEAN Malaysia.

Upon his retirement from the Malaysian Foreign Service in 2010, he became a director of OSK International Bank Berhad from 2010 to 2011 as well as served as the Malaysian Eminent Person for ASEAN-India Eminent Persons Group from 2010 to 2012. He also served as a Commissioner at the Malaysia Communications and Multimedia Commission ("MCMC"), the regulatory arm for communications in Malaysia from 2010 to 2013.

Other than as disclosed, he does not have any family relationship with any director and/or major unitholder of MQREIT. He does not have personal interest in any business arrangements involving MQREIT and has not been convicted of any offences within the past 10 years.

# PROFILE OF DIRECTORS OF THE MANAGER

cont'd



**DR. ROSLAN BIN A. GHAFAR, 65**

*Independent Non-Executive Director  
Malaysian, Male*

|                                 |                       |
|---------------------------------|-----------------------|
| Date of appointment as director | : 16 June 2015        |
| Length of service as director   | : 1 year and 8 months |

**Board Committee(s) served on:**

Executive Committee  
Audit Committee  
Nomination & Remuneration Committee

**Academic/Professional Qualification(s)/Professional Membership(s):**

Bachelor of Science degree from the Louisiana State University, Baton Rouge, USA  
Doctor of Philosophy from University of Kentucky, Lexington, USA

**Present Directorship(s):**

Listed

SYF Resources Berhad  
Box-Pak (Malaysia) Berhad

Unlisted

MRCB Quill Management Sdn Bhd (the manager of MRCB-Quill REIT)  
Cagamas Berhad  
Kuala Lumpur Sentral Sdn Bhd  
Straits International Education Group Sdn Bhd  
Kwasa Land Sdn Bhd  
Permodalan Felcra Sdn Bhd  
Felcra Properties Sdn Bhd  
Felcra Univille Sdn Bhd  
Bimbingan Galakan Sdn Bhd  
Urban Hybrid Sdn Bhd

Others

Adviser to Kumpulan Wang Simpanan Guru-Guru  
Chairman of the Rating Committee of Malaysian Rating Corporation Berhad

**Working Experience:**

Dr. Roslan has over 28 years of experience in the areas of economics, finance and investment. He was the Head of Economics Department of Universiti Putra Malaysia ("UPM") from 1985 to 2001. While with UPM, he provided consultancy services to World Bank, Asian Development Bank, Winrock International and the Economic Planning Unit of the Prime Minister's Department.

In 1994, Dr. Roslan was appointed as Director of Investment and Economic Research Department, Employees Provident Fund ("EPF"). He was promoted to the position of Senior Director in 1996 and later, held the position of Deputy Chief Executive Officer of EPF until his retirement in 2007.

Other than as disclosed, he does not have any family relationship with any director and/or major unitholder of MQREIT. He does not have personal interest in any business arrangement involving MQREIT and has not been convicted of any offences within the past 10 years.



**FOONG SOO HAH, 67**

*Independent Non-Executive Director  
Malaysian, Male*

|                                 |                         |
|---------------------------------|-------------------------|
| Date of appointment as director | : 11 April 2013         |
| Length of service as director   | : 3 years and 10 months |

**Board Committee(s) served on:**

Audit Committee  
Nomination & Remuneration Committee

**Academic/Professional Qualification(s)/Professional Membership(s):**

Bachelor of Science (Hons) Degree in Mathematics, Universiti Malaya (1975)  
Master of Science in Actuarial Science, Northeastern University, Boston, Massachusetts (1977)  
Fellow of Society of Actuaries, USA (1981)

**Present Directorship(s):**

Unlisted

MRCB Quill Management Sdn Bhd (the manager of MRCB-Quill REIT)  
Bank Simpanan Nasional Berhad  
Golden YangKwong Land Sdn Bhd  
Golden YangKwong Development Sdn Bhd  
Aviva Ltd

Others

Perbadanan Insurans Deposit Malaysia (PIDM)  
Private Pension Administrator (PPA) Malaysia

**Working Experience:**

He started his career with American International Assurance Company Ltd in 1977 in the actuarial department. He later joined British American (Malaysia) Insurance Bhd (now known as Manulife Holdings Berhad) as Senior Vice President overseeing marketing, agency management and new businesses and in 1991, was appointed Director and CEO. He joined Great Eastern Life Assurance (Malaysia) Berhad in 1996 as Director and CEO until his retirement in 2009.

Other than as disclosed, he does not have any family relationship with any director and/or major unitholder of MQREIT. He does not have personal interest in any business arrangements involving MQREIT and has not been convicted of any offences within the past 10 years.



# PROFILE OF DIRECTORS OF THE MANAGER

cont'd



**AMINUDDIN BIN MOHD ARIF, 41**

*Independent Non-Executive Director  
Malaysian, Male*

|                                 |                |
|---------------------------------|----------------|
| Date of appointment as director | : 1 April 2016 |
| Length of service as director   | : 11 months    |

**Board Committee(s) served on:**

Audit Committee  
Nomination & Remuneration Committee

**Academic/Professional Qualification(s)/Professional Membership(s):**

M.A (Cantab) in Economics from University of Cambridge  
Association for Investment Managers and Research (AIMR) –  
Chartered Financial Analysts (CFA) Level 1

**Present Directorship(s):**

Listed

Daya Materials Berhad

**Working Experience:**

Upon his graduation in 1997, Aminuddin joined Sime Securities Sdn Bhd as an Economist, Research Department and thereafter, as Marketing Executive with Sime AXA Assurance Sdn Bhd from 1998 to 1999. From 2000 to 2001, he was with Consolidated Plantations Bhd as the Senior Executive, Corporate Planning.

From 2001 to 2014, he was attached to various government agencies having served as the Special Officer to the Minister of Youth and Sports, Private Secretary to the Minister of Education and Minister of Home Affairs and Principal Private Secretary to the Minister of Transport. Aminuddin is currently an Advisor, Corporate Advisory Division at Jasa Baiduri Sdn Bhd.

Other than as disclosed, he does not have any family relationship with any director and/or major unitholder of MQREIT. He does not have personal interest in any business arrangements involving MQREIT and has not been convicted of any offences within the past 10 years.



**ANN WAN TEE, 45**

*Non-Independent Non-Executive Director  
Malaysian, Male*

|                                 |                    |
|---------------------------------|--------------------|
| Date of appointment as director | : 31 March 2015    |
| Length of service as director   | : 1 year 11 months |

**Board Committee(s) served on:**

Audit Committee

**Academic/Professional Qualification(s)/Professional Membership(s):**

Bachelor of Commerce (Accounting) (Hons), University of Birmingham  
Fellow of the Association of Chartered Certified Accountants (FCCA)  
Member of the Malaysian Institute of Accountants (MIA)

**Present Directorship(s):**

Unlisted

MRCB Quill Management Sdn Bhd (the manager of MRCB-Quill REIT)

MRCB Group of Companies

**Working Experience:**

Ann Wan Tee has more than 18 years experience spanning from project advisory, privatisation, private finance initiatives, financial feasibility studies, business valuations, mergers and acquisitions as well as corporate recovery.

He joined Malaysian Resources Corporation Berhad ("MRCB") as Chief Strategy Officer in May 2013 and was appointed as the Group's Chief Financial Officer in November, 2013. Prior to joining MRCB, Wan Tee was the Chief Financial Officer/Finance Director of Gapurna Strategic Alliance Sdn Bhd from June 2012 to May 2013.

Wan Tee was the Executive Director – Corporate Finance at PricewaterhouseCoopers (Advisory Services) from January 2006 to May 2012.

Other than as disclosed, he does not have any family relationship with any director and/or major unitholder of MQREIT. He does not have personal interest in any business arrangements involving MQREIT and has not been convicted of any offences within the past 10 years.

## PROFILE OF DIRECTORS OF THE MANAGER

cont'd



### **KWAN JOON HOE, 34**

*Non-Independent Non-Executive Director  
Malaysian, Male*

|                                 |                        |
|---------------------------------|------------------------|
| Date of appointment as director | : 31 March 2015        |
| Length of service as director   | : 1 year and 11 months |

**Board Committee(s) served on:**  
Executive Committee

### **Academic/Professional Qualification(s)/Professional Membership(s):**

Bachelor of Commerce (Accounting and Finance) from University of Melbourne, Australia  
Member of the Certified Public Accountant, Australia

### **Present Directorship(s):**

#### Unlisted

MRCB Quill Management Sdn Bhd (the manager of MRCB-Quill REIT)  
MRCB Group of Companies

### **Working Experience:**

Kwan Joon Hoe is currently the Chief Operating Officer of Malaysian Resources Corporation Berhad ("MRCB"). He joined MRCB as Senior Vice President of the Groups' Property Division in January 2014 before assuming his current position in MRCB.

He joined Gapurna in 2008 as the Group's Financial Controller, spearheading the RM1 billion Lot 348 development (Menara Shell) in Kuala Lumpur Sentral CBD. He was then promoted to the position of Chief Executive Officer managing the Group's property development function in 2012 before joining MRCB.

Other than as disclosed, he does not have any family relationship with any director and/or major unitholder of MQREIT. He does not have personal interest in any business arrangements involving MQREIT and has not been convicted of any offences within the past 10 years.

# THE MANAGEMENT TEAM



## Name

### Front Row : Standing from the left:

|                      |   |
|----------------------|---|
| Chan Fong Hin        | Senior Manager, Asset Management                  |
| Shirley Tam Soot Lee | Senior Manager, Finance                           |
| Yong Su-Lin          | Chief Executive Officer                           |
| Joyce Loh Mun Ching  | Senior Manager, Investment and Investor Relations |
| Alex Low Kam Seng    | Manager, Asset Management                         |

### 2nd Row : Standing from the left:

|                        |   |
|------------------------|---|
| Phuah Ngah Yui         | Finance Executive                               |
| Jean Wong Wen Looi     | Manager, Legal                                  |
| Alice Yap Soh Ping     | Manager, Lease Administration                   |
| Stephanie Tang Pit Yen | Senior Manager, Investment and Asset Management |

### 3rd Row : Standing from the left:

|                       |                               |
|-----------------------|-------------------------------|
| Tracy Wong            | Finance Executive             |
| Christie Pun Nyuk Len | Manager, Lease Administration |
| Leong Foong Yin       | Finance Executive             |

## THE MANAGEMENT TEAM

cont'd



### YONG SU-LIN, 43

Chief Executive Officer  
Malaysian, Female

|  |                       |
|--|-----------------------|
| Date of appointment as Chief Executive Officer | : 9 July 2015         |
| Length of service as Chief Executive Officer   | : 1 year and 7 months |

### Academic/Professional Qualification(s)/Professional Membership(s):

Bachelor of Arts in Finance degree from the University of Northern Iowa, USA

### Present Directorship(s):

Nil

### Working Experience:

She started her career in corporate banking, managing project financing and lending to property companies, small and medium enterprises, as well as large corporations. Prior to joining the CapitaLand Group and her secondment to MRCB Quill Management Sdn Bhd ("MQM") (previously known as Quill Capita Management Sdn Bhd), she had six years of corporate advisory experience, working in one of the top five audit firms in Malaysia. In her career as a corporate consultant, she was involved in corporate advisory projects for various industry sectors.

In June 2006, Su-Lin joined CapitaLand and was part of the core team that spearheaded the listing of Quill Capita Trust, which had been subsequently renamed as MQREIT in May 2015. She has been involved in the day-to-day operations of MQREIT, and led the investment and investor relations functions as part of the core team since May 2006. She was appointed the Interim Chief Executive Officer on 1 June 2012 and was subsequently designated as Chief Executive Officer on 9 July 2015.

Other than as disclosed, she does not have any family relationship with any director and/or major unitholder of MQREIT. She does not have personal interest in any business arrangements involving MQREIT and has not been convicted of any offences within the past 10 years.

As at 31 December 2016, she hold 3,000 MQREIT units.



# CORPORATE GOVERNANCE

Strong corporate governance has always been our priority as the Manager of MQREIT. We recognise that an effective corporate governance culture is critical to our performance and, consequently, to the success of MQREIT.

MRCB Quill Management Sdn Bhd ("MQM" or "the Manager") as the manager of MRCB-Quill REIT ("MQREIT"), recognises that an effective corporate governance culture is essential to protect the best interests of the Unitholders, as well as critical to the performance of the Manager and consequently, the success of MQREIT.

As a result, the Manager has adopted a comprehensive corporate governance framework that is designed to meet the best practice principles. In particular, the Manager must act honestly, with due care and diligence, and in the best interests of the Unitholders.

The following sections describe the Manager's main Corporate Governance Practices and Policies which are guided by measures recommended in the Guidelines on Real Estate Investment Trusts issued by the Securities Commission Malaysia ("SC REIT Guidelines"), the Malaysian Code on Corporate Governance 2012 issued by the Securities Commission Malaysia ("Code") and the Main Market Listing Requirements ("Main Market Listing Requirements") of Bursa Malaysia Securities Berhad ("Bursa Securities").

## THE MANAGER OF MQREIT

MQM as the Manager of MQREIT has general powers of management over the assets of MQREIT. Its main responsibility is to manage the assets and liabilities of MQREIT for the benefit of its Unitholders with a view to provide long-term and sustainable distributions of income to its Unitholders and to achieve long-term growth in the net asset value per unit, so as to provide competitive investment return to its Unitholders. Our internal review procedures encompass proactive measures for avoiding situations of conflict and potential conflict of interest, including prioritizing the interests of Unitholders over the Manager's and ensuring that applicable laws and regulations are complied with, so that Unitholders' interests are best served at all times.

The primary role of the Manager is to set the strategic directions of MQREIT and make recommendations to Maybank Trustees Berhad, acting solely in its capacity as trustee for and on behalf of MQREIT ("Trustee") on the acquisition or divestment of assets of MQREIT in accordance with its stated investment strategy. The research, analysis and evaluation required for this purpose is co-ordinated and carried out by the Manager. The Manager is also responsible for the risk management of MQREIT.

Other functions and responsibilities of the Manager are as follows:-

- **Investment Strategy.** Formulate and implement MQREIT's investment strategy, including determining the location, sub-sector, market risk, type and other characteristic of MQREIT's property portfolio.
- **Acquisition and Divestment.** Make recommendations to and co-ordinate with the Trustee and implement the acquisition of new assets and divestment of MQREIT's existing investments.
- **Asset Management.** Supervise and oversee the management of MQREIT's properties including preparing property plans on an annual basis for review by the Directors of the Manager which may contain proposals and forecasts on net income and capital expenditure, explanation of major variances to previous forecasts, written commentary on key issues and underlying assumptions on rental rates, occupancy rates and any other relevant assumptions. The purpose of these plans is to explain the performance of MQREIT's assets.
- **Financing.** Formulate plans for equity and debt financing for MQREIT's debt requirements.
- **Accounting Records.** Keep books and prepare or cause to be prepared accounts and annual reports, including annual budgets for MQREIT.
- **Supervisory Services.** Supervise day-to-day administrative service as MQREIT's representative, including administrative services relating to meetings of Unitholders when such meetings are convened.
- **Investor Relations.** Co-ordinate, communicate and liaise with Unitholders.
- **Compliance Management.** Supervise all regulatory filings on behalf of MQREIT, and ensure that MQREIT is in compliance with the applicable provisions of the Capital Markets and Services Act 2007, the SC REIT Guidelines, Main Market Listing Requirements, the Trust Deed (as defined herein), and all relevant contracts.

The Manager endeavors to carry on and conduct MQREIT's business in a proper and efficient manner and to conduct all transactions with, or on behalf of MQREIT, on arm's length basis.

# CORPORATE GOVERNANCE

cont'd

The Manager also manages and supervises the service providers including the property manager, Zaharin Nexcap Property Management Sdn Bhd (for Part of Plaza Mont Kiara and Menara Shell) and Savills (KL) Sdn Bhd (for Quill Building 1 – DHL 1, Quill Building 4 – DHL2, Quill Building 2 – HSBC, Quill Building 3 – BMW, Quill Building 5 – IBM, Quill Building 8 – DHL XPJ, Wisma Technip, Tesco Building, Penang and Platinum Sentral) (collectively referred as “Property Managers”) who performs the day-to-day property management functions for MQREIT’s properties pursuant to the property management agreement signed for each property.

MQREIT, constituted as a trust, is externally managed by the Manager and accordingly, it has no personnel of its own. The Manager appoints experienced and well-qualified management personnel to handle the day-to-day operations of MQREIT.

MQM is appointed as the manager of MQREIT in accordance with the terms of the Trust Deed dated 9 October 2006 as amended by the Supplemental Deed dated 27 August 2007, Second Supplemental Deed dated 28 May 2013 and Third Supplemental Deed dated 2 April 2015 (“Trust Deed”). The Trust Deed outlines certain circumstances under which the Manager can be removed, upon the occurrence of certain events, including a resolution passed, at a meeting of Unitholders duly convened and held in accordance with the provisions of the Trust Deed, by a majority consisting of not less than three-fourths of the Unitholders voting thereat.

## BOARD OF DIRECTORS

The Board of Directors (“Board”) of MQM is responsible for the overall management and the corporate governance of MQREIT, including establishing goals for management and monitoring the achievements of these goals. The Board is committed to the implementation and maintenance of good corporate governance practices including the observation of recommendations of the Code. The Board provides leadership to the Manager, sets strategic directions and oversees competent management of MQREIT.

Each Director must act honestly, with due care and diligence, and in the best interest of the Unitholders. The Board ensures that proper and effective controls are in place to assess and manage business risk, and compliance with applicable laws. It also sets the disclosure and transparency standards for the Manager and MQREIT and ensure that obligations to the Unitholders are understood and met. The Manager has adopted guidelines, details of which are set out below for Related Party Transactions, dealings with related parties and dealings with conflict of interest.

All Board members participate in matters relating to corporate governance, business operations, risk management and financial performance. The Board has established a framework for management of the Manager and MQREIT, including a system of internal controls and business risk management process.

## BOARD COMPOSITION AND BALANCE

Presently, the Board consists of nine (9) members of which three (3) of the members are independent non-executive Directors.

The Board comprises business leaders and financial professionals with background in various industries including fund management and property. The profiles of the Directors are set out in the Annual Report. The Board is of the view that its current composition comprises persons who, as a group, provides the necessary core competencies and that the current Board size appropriate and effective, taking into consideration the nature and scope of MQREIT’s operations.

The composition of the Board is determined using the following principles:-

- The Board should comprise Directors with a broad range of commercial experience, including expertise in fund management, the property industry and the banking fields; and
- At least one-third of the Board should comprise independent Directors.

A Director who is independent of management (or the controlling or significant shareholder(s) of the said management company) and free from any business or other relationship which could interfere with the exercise of independent judgment or the ability to act in the best interests of MQREIT, is considered to be independent. All the Board members are non-executive. From the outset, it has ensured that each Director’s special contributions bring to the Board an independent and objective perspective to enable balanced and well-considered decisions to be made.

# CORPORATE GOVERNANCE

cont'd

Newly appointed Directors are given briefings by the management on the business activities of MQREIT, its strategic directions and policies and the regulatory environment in which MQREIT operates. Directors are also informed of their statutory and other duties and responsibilities as well as policies and procedures relating to the corporate conduct and governance including the disclosure of interests, prohibitions on dealings in MQREIT's units and restrictions on the disclosure of price-sensitive information. Directors are routinely updated on developments and changes in the operating environment, including revisions to accounting standards, and laws and regulations affecting the Manager and/or MQREIT. Directors are also encouraged to participate in industry conferences, seminars or any training programme in connection with their duties.

## BOARD MEETINGS AND PROCEDURES

The Board meets regularly to discuss and review the Manager's key activities including its business strategies and policies for MQREIT. The Board meetings are scheduled in advance, and are held at least once every quarter, to deliberate on business strategies and policies of MQREIT, including any significant acquisitions and disposals, review and approve the annual budget, review the performance of the business, review the financial performance of the Manager and MQREIT and approve the release of the quarterly and full year results. The Board also reviews the risks to the assets of MQREIT, and acts upon comments from the auditors of MQREIT, if any. Additional Board meetings are held, when necessary, to address any significant transactions or issues that may arise.

The Board is supported by an Audit Committee that provide independent supervision of the management of MQREIT. The Board is also assisted by an Executive Committee ("EXCO") on the operational and administrative matters of the Manager and MQREIT. The Board has also set up a Nomination and Remuneration Committee to recommend suitably qualified candidates and formulate or review the remuneration policies for the Board. The compositions of each committee are disclosed below.

The Board has adopted a set of internal controls which sets out the approval limits for capital expenditure, investments and divestments, bank borrowings and cheque signatories' arrangements. The Board approves transactions exceeding certain threshold limits, while delegating authority for transactions below those limits to Board Committees. Appropriate delegation of authority is also provided at management level to facilitate operational efficiency.

The Board sets broad policies and strategic directions and ensures competent management of MQREIT. The Board also ensures compliance with applicable laws. Board members have a duty to act in good faith, with due diligence and care in the best interests of MQREIT and its Unitholders. An effective Board is able to provide firm support to management at all times and steer MQREIT in the right direction.

A total of eight (8) Board of Directors meetings were held between 1 January 2016 and 31 December 2016. All the directors attended at least 50% of the Board of Directors meetings during the period.

*Details of attendance of the Directors at the Board Meetings held from 1 January 2016 to 31 December 2016*

|   | Numbers of<br>Meetings Attended | Percentage |
|---|---------------------------------|------------|
| <b>Non-executive Directors</b>                |                                 |            |
| Tan Sri Saw Choo Boon <sup>1</sup> (Chairman) | 7/7                             | 100%       |
| Dato' Dr Low Moi Ing, J.P.                    | 8/8                             | 100%       |
| Dato' Michael Ong Leng Chun                   | 8/8                             | 100%       |
| Dato' Thanarajasingam Subramaniam             | 4/8                             | 50%        |
| Ann Wan Tee                                   | 8/8                             | 100%       |
| Kwan Joon Hoe                                 | 8/8                             | 100%       |
| <b>Independent Non-Executive Directors</b>    |                                 |            |
| Foong Soo Hah                                 | 8/8                             | 100%       |
| Dr Roslan Bin A. Ghaffar                      | 8/8                             | 100%       |
| Aminuddin Bin Mohd Arif <sup>2</sup>          | 4/4                             | 100%       |
| Datuk Dr Mohamed Arif Bin Nun <sup>3</sup>    | 3/3                             | 100%       |

Notes:

<sup>1</sup> Tan Sri Saw Choo Boon appointed as a Director & Chairman on 22 January 2016.

<sup>2</sup> Aminuddin Bin Mohd Arif appointed as a Director on 1 April 2016.

<sup>3</sup> Datuk Dr Mohamed Arif Bin Nun resigned as a Director on 1 April 2016.



# CORPORATE GOVERNANCE

cont'd

## ACCOUNTABILITY AND ACCESS TO INFORMATION

The management provides the Directors with complete and adequate information in a timely manner. This is done through regular updates on financial results, market trends and business developments. Changes to regulations and accounting standards are monitored closely. To keep pace with regulatory changes, where these changes have an important and significant bearing on MQREIT and its disclosure obligations, the Directors are briefed by the management either during Board meetings, at specifically convened sessions or via circulation of Board papers.

The management also prepares management accounts on a quarterly basis to keep abreast of MQREIT's financial performance, position and prospects. Information includes explanatory background relating to budgets, forecasts and management accounts. In relation to budgets, any material variance between projections and actual results are disclosed and explained.

The Manager has complied with the applicable Main Market Listing Requirements on quarterly financial reporting since inception. It also provides the Directors with management accounts on a quarterly basis.

The Company Secretary ("Secretary") works together with the Chairman and the management to ensure that Board and/or Board Committee papers and agenda are provided to each Director ahead of meetings of Board and/or Board Committee so that they can familiarize themselves with the matters prior to the meetings. Senior executives who can provide additional insights into matters to be discussed are requested to attend the meetings to answer any questions. Meetings are usually half-a-day affairs and include presentations by senior executives, and when necessary, presentations by external consultants and experts on strategic issues relating to specific business areas.

The Board has separate and independent access to the Manager's senior management and the Secretary, and vice versa. The Secretary renders necessary assistance to the Board, and ensures meeting procedures are followed and the applicable laws and regulations are complied with. Under the direction of the Chairman, the Secretary's responsibilities include ensuring good information flows within the Board and its Committees and between senior management and non-executive Directors as well as facilitating orientation and assisting with professional development as required.

The Board will take independent professional advice when it deems necessary for the proper and efficient discharge of its responsibilities. The Secretary will assist the Board in obtaining such advice upon request. The Secretary also attends to corporate secretarial administrative matters and attends all Board and Board Committee meetings.

## BOARD PERFORMANCE

The Manager believes that Board performance and that of individual Board members is reflected and evidenced by proper guidance, diligent oversight and able leadership, and the support that it lends to the management to steer MQREIT in the appropriate direction, and the long-term performance of MQREIT under favourable or challenging market conditions. Contributions by an individual Board member take in many forms including providing objective perspective of issues, facilitating business opportunities and strategic relationships and accessibility to management outside of a formal environment of Board and/or Board Committee meetings. The non-executive Directors actively participate in setting and developing strategies and goals for management, and reviewing and assessing management performance. This enables the management to benefit from their external and objective perspective on issues that are brought forward before the Board. It also enables the Board to interact and work with the management through a healthy exchange of ideas and views to help shape the strategic process. This, together with a clear separation of the roles of the Chairman and the Chief Executive Officer, provides a healthy professional relationship between the Board and management with clarity of roles and robust deliberation on the business activities of MQREIT.

Ultimately, the interest of MQREIT will be safeguarded and reflected by maximization of Unitholders' value.

## CHAIRMAN AND CHIEF EXECUTIVE OFFICER ("CEO")

The positions of Chairman and CEO are held by separate persons to ensure an appropriate balance of power, increased accountability and greater capacity of the Board for independent decision-making. The division of responsibilities between the Chairman and the CEO facilitates effective oversight and a clear segregation of duties.

# CORPORATE GOVERNANCE

cont'd

Tan Sri Saw Choo Boon, the Chairman, leads the Board to ensure the effectiveness on all aspects of its role and sets its agenda. He ensures that the members of the Board receive accurate, clear and timely information, facilitates the contribution of non-executive Directors, and encourages constructive relations between executive Directors, non-executive Directors and management. The Chairman ensure that the members of the Board work together with the management with integrity, competency and moral authority and engages the management in constructive debate on strategy, business operations and enterprise risks.

Yong Su-Lin, the CEO has full executive responsibilities over the business directions set by the Board and of all operational decisions in managing MQREIT.

Pursuant to Recommendation 3.5 of the Code, the board must comprise a majority of independent directors where the Chairman of the Board is not an independent director. The Board note that the Chairman is not independent due to his directorship in Global Jejak Sdn Bhd, one of the shareholders of the Manager.

Notwithstanding that Recommendation 3.5 of the Code is not met, one third of the Board comprises Independent Directors and in compliance with the Main Market Listing Requirements and SC REIT Guidelines. The Board strongly believes that all Directors act in the best interest of all Unitholders.

## DIRECTORS' FEES

Directors' fees are paid by the Manager and not MQREIT. Directors' fees for the year ended 31 December 2016 are shown in the table below:-

| Board Members                                      | FY 2015<br>Director's Fees | FY 2016<br>Director's Fees |
|--|----------------------------|----------------------------|
| Dato' Mohammed Bin Haji Che Hussein <sup>(3)</sup> | RM17,260.27                | -                          |
| Tan Sri Saw Choo Boon <sup>(5)</sup>               | -                          | RM65,983.61                |
| Dato' Dr Low Moi Ing, J.P.                         | RM55,000.00                | RM55,000.00                |
| Dato' Michael Ong Leng Chun                        | RM42,958.90                | RM40,000.00                |
| Mohd Imran Bin Mohamad Salim <sup>(2)(4)</sup>     | RM26,520.55                | -                          |
| Kwan Joon Hoe <sup>(2)</sup>                       | RM30,246.58                | RM40,000.00                |
| Ann Wan Tee <sup>(2)</sup>                         | RM38,424.66                | RM55,000.00                |
| Dato' Thanarajasingam Subramaniam                  | RM109.59                   | RM40,000.00                |
| Wen Khai Meng <sup>(1)(3)</sup>                    | RM11,835.61                | -                          |
| Chong Lit Cheong <sup>(1)(3)</sup>                 | RM9,863.01                 | -                          |
| Foong Soo Hah                                      | RM79,109.60                | RM65,000.00                |
| Dr Roslan Bin A. Ghaffar                           | RM29,986.30                | RM55,000.00                |
| Datuk Dr Mohamed Arif Bin Nun                      | RM55,000.00                | RM13,825.13                |
| Aminuddin Bin Mohd Arif <sup>(6)</sup>             | -                          | RM41,325.13                |

(1) Fees to these Directors are paid directly to CapitaLand Financial Limited.

(2) 50% fees to these Directors are payable to Malaysian Resources Corporation Berhad and 50% are payable to the Directors.

(3) Dato' Mohammed Bin Haji Che Hussein, Wen Khai Meng and Chong Lit Cheong resigned as Directors with effect from 31 March 2015.

(4) Mohd Imran Bin Mohamad Salim resigned as a Director on 27 November 2015.

(5) Tan Sri Saw Choo Boon appointed as a Director & Chairman on 22 January 2016.

(6) Aminuddin Bin Mohd Arif appointed as a Director on 1 April 2016.

(7) Datuk Dr Mohamed Arif Bin Nun resigned as a Director on 1 April 2016.

In addition to Directors' fees, the Directors are also paid an allowance for attending meetings.

# CORPORATE GOVERNANCE

cont'd

## DIRECTORS' TRAINING

During the financial year under review, the Directors had attended various conferences and programmes to enhance their knowledge and expertise and to keep abreast with the relevant changes in law, regulations and the business environment. In this regard, the Board will continue to evaluate and determine the training needs of its Directors on an ongoing basis.

The training programmes, conferences and seminars attended by the Directors during the financial year under review were, inter alia, on areas relating to real estates, corporate leadership and governance, professional development, risk management, financial and tax issues, details of which are listed below:-

| Directors                         | Course Title  |
|-----------------------------------|---|
| Tan Sri Saw Choo Boon             | <ul style="list-style-type: none"> <li>• The New Auditor's Report – Sharing the UK Experience</li> <li>• Sustainability Engagement Series for Directors</li> <li>• Shell Scenarios</li> <li>• SERC Global Economies Conference – The New Normal</li> <li>• World Bank Malaysia Economic Monitor – Leveraging Trade Agreements</li> <li>• Integrated Strategic Risk Management Program – IERP</li> <li>• Introduction to MFRS9</li> <li>• International Blue Ocean Conference</li> <li>• Identify Right Board Talent</li> <li>• Shariah Islamic Banking Awareness Program</li> <li>• Anti-Money Laundering/Counter Terrorism Training</li> <li>• Director Training – New Company Act, Security &amp; Terrorism in Malaysia, The Power of Social Media</li> <li>• World Bank Malaysia Economic Monitor – Quest For Productivity Growth</li> </ul> |
| Dato' Dr Low Moi Ing, J.P.        | <ul style="list-style-type: none"> <li>• Stewardship Matter – For Long Term Sustainability</li> <li>• Construction Industry Transformation Plan</li> <li>• Malaysian Property Summit – Mid Year Review 2016</li> </ul>  |
| Dato' Michael Ong Leng Chun       | <ul style="list-style-type: none"> <li>• Anti-money laundering and anti-terrorism financing</li> </ul>  |
| Foong Soo Hah                     | <ul style="list-style-type: none"> <li>• Future of Auditor Reporting – The Game Changer For Boardroom</li> <li>• Anti-corruption &amp; Integrity – Foundation of Corporate Sustainability</li> </ul>  |
| Dato' Thanarajasingam Subramaniam | <ul style="list-style-type: none"> <li>• MSWG – Institutional Investor Council Corporate Governance Week 2016</li> <li>• Briefing on Companies Bill 2016</li> <li>• CG Breakfast Series: How To Leverage on AGMS for Better Engagement with Shareholders</li> <li>• The Evolving Role of Audit Committee in Governance, Risk and Control</li> </ul>   |
| Dr Roslan Bin A. Ghaffar          | <ul style="list-style-type: none"> <li>• ASEAN Fixed Income Seminar</li> <li>• Board Masterclass on Effective Enterprise Risk Management Practices &amp; Practical Enterprise Risk Management Implementation Issues</li> <li>• Investors Briefing – Malaysia Rating Corporation Berhad</li> </ul>   |
| Ann Wan Tee                       | <ul style="list-style-type: none"> <li>• Roundtable: CFO's Key Competencies For The Future</li> </ul>   |
| Kwan Joon Hoe                     | <ul style="list-style-type: none"> <li>• CG Breakfast Series: How To Leverage on AGMS for Better Engagement with Shareholders</li> <li>• Anti-corruption &amp; Integrity – Foundation of Corporate Sustainability</li> </ul>  |
| Aminuddin Bin Mohd Arif           | <ul style="list-style-type: none"> <li>• Risk Management And Internal Control Workshop: Is Our Line Of Defence Adequate And Effective</li> </ul>  |



# CORPORATE GOVERNANCE

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## BOARD COMMITTEES

The Board has established three (3) Committees, each with specific authorities and responsibilities, to assist the Board to discharge its duties and responsibilities effectively. At these Committees, detailed review and deliberation of strategic issues are carried out and the Chairman of the various Committees will report on their respective deliberations and recommendations to the Board at the subsequent Board Meeting. However, the Board retains the ultimate responsibility for decision made by the Committee.

The composition, responsibilities and activities of the various Committees are set out below.

### (A) Executive Committee ("EXCO")

The EXCO operates under the delegated authority from the Board. Currently, the members of the EXCO are Dr Roslan Bin A. Ghaffar (Chairman), Dato' Michael Ong Leng Chun and Kwan Joon Hoe.

The EXCO oversees the day-to-day activities of the Manager on behalf of the Board which includes:-

- Approving or making recommendations to the Board on new investments, acquisitions, financing offers and banking facilities;
- Approving or making recommendations to the Board on divestments and write-off of property assets/equity stakes;
- Approving budgets for capital expenditure for development projects, acquisitions and enhancements/upgrading of properties;
- Reviewing of management reports and operating budgets;
- Awarding contracts for development and enhancement/upgrading projects;
- Appointing consultants and/or agents for acquisitions or divestments;
- Reporting to the Board on decisions made by the EXCO; and
- Such other functions as delegated by the Board.

During the year ended 31 December 2016, a total of four (4) EXCO meetings were held and these were fully attended by all the members of the EXCO.

*Details of attendance of members at the EXCO meetings held from 1 January 2016 to 31 December 2016*

| Exco Member                         | Number of Meetings Attended | Percentage |
|-------------------------------------|-----------------------------|------------|
| Dr Roslan Bin A. Ghaffar (Chairman) | 4/4                         | 100%       |
| Dato' Michael Ong Leng Chun         | 4/4                         | 100%       |
| Kwan Joon Hoe                       | 4/4                         | 100%       |

### (B) Audit Committee

The Audit Committee comprising Foong Soo Hah as Chairman, Dato' Dr Low Moi Ing, J.P., Dr Roslan Bin A Ghaffar, Ann Wan Tee and Aminuddin bin Mohd Arif, has an active role in assisting the Board in discharging its governance responsibilities. The majority of the Audit Committee are independent Directors. The Manager is of the view that the Audit Committee members have the relevant expertise to discharge the functions of an Audit Committee.

During the year, the Audit Committee reviewed its Terms of Reference to incorporate Risk Management into the functions of the Audit Committee. The following revised Terms of Reference was approved by the Board on 2 August 2016:

- To consider the appointment of the external auditor, the audit fee and the reason given for their resignation or dismissal;
- To review the audit plans and scope of audit examination of the external auditors;
- To review with external auditors with regards to problems and reservations arising from their interim and final audits;

## CORPORATE GOVERNANCE

cont'd

- To review the quarterly and year-end financial statements, focusing particularly on:
  - Any changes in accounting policies and practices
  - Significant and unusual events
  - Significant adjustments and issues arising from the audit
  - The going concern assumption
  - Compliance with the applicable approved accounting standards and other legal requirements
- To review the external auditor's management letter and management's response;
- To do the following, in relation to the internal audit function:
  - Review the adequacy of the scope, functions, competency and resources of the internal audit function and that it has the necessary authority to carry out the work
  - Review the internal audit programme, process, the results of the internal audit programme, processes or investigation undertaken and whether or not appropriate action is taken on the recommendations of the internal audit function
- To promptly report to Bursa Securities, where the Audit Committee is of the view that a matter reported by it to the Board has not been satisfactorily resolved resulting in a breach of the Main Market Listing Requirements;
- To review procedures established to address allegations raised by whistleblowers, to ensure independent investigations is conducted and follow-up action is taken;
- To review any related party transaction and conflict of interest situations that may arise including any transaction, procedure or course of conduct that raises questions of management integrity;
- To assess the risks and control environment, to determine whether management has implemented policies ensuring the risks are identified and evaluate and those internal controls in place and effective to address the risks;
- To consider the report, major findings and management's response of an internal investigations carried out by the internal auditors; and
- To undertake such other responsibilities as may be agreed by the Audit Committee and the Board.

The Audit Committee is authorised to investigate any matters within its terms of reference. It is entitled to full access to and co-operation of the management and the internal auditor and enjoys full discretion to invite any Director or executive officer of the Manager to attend its meetings. The internal auditor and external auditor have unrestricted access to the Audit Committee. The Audit Committee has full access to reasonable resources to enable it to discharge its functions properly.

The Audit Committee also meets MQREIT's external auditor and internal auditor, without the presence of management at least once annually. MQREIT's external auditor carries out, in the course of its annual audit, a review on the effectiveness of the Manager's material internal controls, including financial, operational and compliance controls and risk management to the extent of the scope of audit as set out in its audit plan. Material non-compliances and internal control weaknesses noted during the audit and auditor's recommendations to address such non-compliances and weaknesses are reported to the Audit Committee. Management follows up and implements MQREIT's external auditor's recommendation.

In its review of the audited financial statements for the financial year ended 31 December 2016, and based on its discussions with the management and where required, in consultation with the external auditors, the Audit Committee is of the view that the financial statements are fairly presented, and conform to generally accepted accounting principles in all material aspects.

For all non-audit services, if any, provided by the external auditors, the Audit Committee conducts a review to satisfy itself that the nature and extent of such services will not prejudice the independence and objectivity of the external auditors.

The Audit Committee also review arrangements by which employees of the Manager may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters. Pursuant to this, the Audit Committee has reviewed and is satisfied with the Whistle-Blowing Policy introduced by the management where employees may raise improprieties to the Audit Committee Chairman in good faith, with the confidence that employees making such reports will be treated fairly and be protected from reprisal. The Audit Committee confirms that no reports have been received under the Whistle Blowing Policy thus far.

For the financial year ended 31 December 2016, a total of five (5) Audit Committee meetings were held and these were fully attended by all the members of the Audit Committee.

# CORPORATE GOVERNANCE

cont'd

*Details of attendance of members at the Audit Committee meetings held from 1 January 2016 to 31 December 2016*

| Audit Committee Member                     | Number of Meetings Attended | Percentage |
|--|-----------------------------|------------|
| Foong Soo Hah (Chairman)                   | 5/5                         | 100%       |
| Dato' Dr Low Moi Ing, J.P.                 | 5/5                         | 100%       |
| Dr Roslan Bin A. Ghaffar                   | 5/5                         | 100%       |
| Ann Wan Tee                                | 5/5                         | 100%       |
| Aminuddin Bin Mohd Arif <sup>1</sup>       | 4/4                         | 100%       |
| Datuk Dr Mohamed Arif Bin Nun <sup>2</sup> | 1/1                         | 100%       |

Notes:

1 Aminuddin Bin Mohd Arif appointed as an Audit Committee member on 1 April 2016.

2 Datuk Dr Mohamed Arif Bin Nun resigned as an Audit Committee member on 1 April 2016.

## (C) Nomination and Remuneration Committee

The Board has established the Nomination and Remuneration Committee on 2 August 2016 and comprises three (3) members, all of whom are Independent Non-executive Directors. The members of the Nomination and Remuneration Committee are Aminuddin Bin Mohd Arif as Chairman, Dr. Roslan Bin A. Ghaffar and Foong Soo Hah. The Committee's key objective is to ensure that the Board comprises individuals with the requisite skills, knowledge and experience to ensure that the Board is effective in discharging its responsibilities and continues to be capable of providing the high level performance required.

The Terms of Reference of the Nomination and Remuneration Committee are as set out below:

(i) The responsibility of the Committee in relation to its nominations function shall be:

- To identify, assess and recommend to the Board for its approval, suitably qualified candidates for the Board, the committees of the Board, taking into consideration the character, experience, integrity, competence and time commitment.
- To identify and recommend to the Board for its approval, candidates for appointment as the Chief Executive Officer and Chief Financial Officer.
- To review and recommend to the Board for its approval, the extension of contracts of the Chief Executive Officer and Chief Financial Officer.
- To recommend to the Board, candidates for re-election and/or re-appointment of directors by shareholders at annual general meeting under the annual re-election provisions or retirement pursuant to the relevant laws having regard to their performance and ability to continue to contribute to the Board in light of their knowledge, skills and experience based on the annual Board assessment.
- To assess the independence of independent directors and recommend to the Board the retention of independent directors who have served for a cumulative period of nine (9) years, if deemed appropriate. Consideration should be made as to whether an independent director can continue to bring independent and objective judgement to Board deliberations.
- To assist the Board in implementing annual evaluation of the effectiveness of the Board as a whole, the committees of the Board and the contribution of each individual including Chief Executive Officer and to maintain proper documentation of such assessment.

(ii) The responsibility of the Committee in relation to its remunerations function shall be:

- To formulate or review the remuneration policies and remuneration for the members of the Board, Board Committees, Chief Executive Officer and Chief Financial Officer and recommend to the Board for approval.



# CORPORATE GOVERNANCE

cont'd

- To review and recommend to the Board for adoption the framework for the Company's annual incentive scheme. The framework for the annual incentive scheme may include:
  - Merit increment
  - Merit bonus
  - Acquisition/divestment incentives
  - Special corporate exercise incentives
- To seek any information it requires from any employee of the Company in order to perform its duties
- To obtain, at the Company's expense, any outside legal or other professional advice including the advice of independent remuneration consultants, to secure the attendance of the external advisers at its meeting if it considers necessary, and to obtain reliable, up-to-date information about the remuneration in other companies.
- To have full authority to commission any report or survey which it deems necessary to help it fulfil its obligations.
- To perform any other function as defined by the Board.

Nomination and Remuneration Committee has yet to hold any meetings since its inception. The Nomination and Remuneration Committee meetings are scheduled as and when required.

## INTERNAL CONTROLS

### (A) Internal Audit

The Manager has put in place a system of internal control procedures and processes to safeguard the assets of MQREIT, interests of Unitholders as well as to manage risk.

The Manager has in place an internal audit function which is outsourced to BDO Governance Advisory Sdn Bhd ("BDO Governance"). The principal role of the internal audit function is to conduct regular reviews on the system of internal control of MQM in respect of its role as the Manager of MQREIT, and report on the effectiveness and efficiency of the management, operations, risk management and internal controls. The reviews are conducted based on an internal audit plan as approved by the Audit Committee.

The scope of audit function by BDO Governance entailed the following:-

- (i) Preparation of annual internal audit plan for the financial year;
- (ii) Conducting internal control review ("ICR") for the financial year, preparation of report of findings, obtaining management's action plans for the findings and presentation of the findings to the Audit Committee during its meeting;
- (iii) Conducting follow up review to report on the status of implementation of management action plans arising from the ICR; and
- (iv) Reviewing of related party transactions and presentation of findings of the review to the Audit Committee.

BDO Governance reports directly to the Audit Committee of its findings and when required, they undertake investigations as directed by the Audit Committee. Any findings and recommendations arising from the ICR will be tabled to the Audit Committee at its meeting. The internal audit function performed by BDO Governance is independent from the management and in performing their role of internal audit function, BDO Governance has access to MQM's personnel, premises, documents, records, information and are authorized to obtain such information and explanations which BDO Governance consider necessary to fulfill and in discharging its responsibilities.

The cost incurred for the internal audit function for the financial year ended 31 December 2016 is RM39,800 (excluding goods and services tax and disbursements) and is borne by the Manager.

The Audit Committee reviews the internal audit reports and activities on an on-going basis. The Audit Committee also reviews and approves the annual internal audit plan with respect to MQREIT. The Audit Committee is of the view that the internal audit team is adequately resourced to perform its functions and has, to the best of its ability, maintained its independence from the activities that it audits.

The Board is satisfied that the Manager's internal controls are adequate based on the reports of BDO Governance.

# CORPORATE GOVERNANCE

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## (B) Dealings with Related Parties

In general, the Manager has established internal control procedures to ensure that related party transactions are undertaken in compliance with the SC REIT Guidelines, the Trust Deed and the Main Market Listing Requirements and such transactions are carried out on arm's length basis based on normal commercial terms, which are generally no more favourable than those extended to unrelated third parties.

In respect of such transactions, the Manager would have to demonstrate to the Audit Committee that the transactions are undertaken on normal commercial terms, which may include (where applicable) obtaining quotations from parties unrelated to the Manager, or obtaining a valuation from an independent valuer.

All related party transactions are subject to regular review by the Audit Committee. The Audit Committee periodically reviews, together with the management, related party transactions to ensure compliance with the internal control procedures established and the relevant provisions of the SC REIT Guidelines, the Trust Deed and the Main Market Listing Requirements.

In dealing with any related party transactions, it is the Manager's policy that all related party transactions carried out by or on behalf of MQREIT should be:

- a) carried out at arm's length basis and on normal commercial terms;
- b) in the best interests of the Unitholders of MQREIT;
- c) adequately disclosed to the Unitholders of MQREIT;
- d) in relation to a real estate transaction:-
  - (i) consented by the Trustee;
  - (ii) consistent with the investment objective and strategy of MQREIT; and
  - (iii) transacted at a price that is equivalent to the value assessed in the valuation report.

Acquisition/disposal may be transacted at a price other than as per the valuation report Provided That (a) the acquisition price is not more than 110% of the value assessed in the valuation report; (b) the disposal price is not less than 90% of the value assessed in the valuation report; and (c) the Trustee provide a written confirmation that the transaction is based on normal commercial terms, at arm's length, and not prejudicial to the Unitholders' interest.

The Manager and Trustee must ensure that the prior approval of the Unitholders by way of an ordinary resolution is obtained where the transaction value with related parties under paragraph (d) above is equal to or greater than 5% of the total asset value of MQREIT (after acquisition). Where the transaction value does not exceed 5% of the total asset value of MQREIT (after acquisition), the Trustee must provide a written confirmation that the transaction is based on normal commercial terms, at arm's length, and not prejudicial to the Unitholders' interest.

## (C) Role of the Audit Committee for Related Party Transactions

The Manager's internal control procedures are intended to ensure that related party transactions are conducted at arm's length based on normal commercial terms, and are not prejudicial to the Unitholders' interests. The Manager maintains a record of any related party transactions entered into by MQREIT. The Manager incorporates into its internal audit plan, a review of all related party transactions entered into by MQREIT and the Audit Committee reviews the internal audit reports to ensure that the guidelines and procedures established to monitor related party transactions have been complied with. In addition, the Audit Committee periodically reviews, together with the management, related party transactions to ensure compliance with the internal control procedures and the relevant provisions of the SC REIT Guidelines, the Trust Deed and the Main Market Listing Requirements. The review includes the examination of the nature of the transaction and the supporting documents, or such other data deemed necessary by the Audit Committee.

# CORPORATE GOVERNANCE

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If a member of the Audit Committee has an interest in a transaction, he is to abstain from participating in the review and the recommendation process in relation to that transaction.

The related party transactions for the financial year ended 31 December 2016 are as disclosed in Note 31 of the Notes to the financial statements for the year ended 31 December 2016.

## (D) Dealings with Conflict of Interest

The Trust Deed provides that the Manager, the Trustee and any delegate of either of them shall avoid any conflict of interest and if conflict arises, shall ensure that MQREIT is not disadvantaged by the transactions concerned.

In order to deal with any conflict of interest situations that may arise, the Manager's policy is that any related party transaction, dealing, investment and appointment carried out for and on behalf of MQREIT are to be executed on terms that are best available to MQREIT and which are no less favourable to MQREIT than on arm's length transactions between independent parties.

The Manager may not act as principal in the sale and purchase of real estate, securities and any other assets to and from MQREIT. Acting as principal includes a reference to:-

- a) dealing in or entering into a transaction on behalf of a person associated with the Manager;
- b) acting on behalf of a corporation in which the Manager has a controlling interest; or
- c) the Manager acting on behalf of a corporation in which the Manager's interest and the interests of its directors together constitute a controlling interest.

The following procedures have been established to deal with potential conflict of interest which the Manager (including its Directors and employees) may encounter in managing MQREIT:-

- the Manager is a dedicated manager to MQREIT and will not manage any other REIT which invests in the same types of properties as MQREIT, or be involved in any other real property business;
- at least one-third of the Board shall comprise of independent Directors; and
- all resolutions at meetings of the Board in relation to matters concerning MQREIT must be decided by a majority vote of the Directors.

The Directors of the Manager are under a fiduciary duty to MQREIT to act in its best interests in relation to decisions affecting MQREIT when they are voting as members of the Board. In addition, the Directors and executive officers of the Manager are expected to act with integrity and honesty at all times. To avoid situation of conflict of interest at Board level, those Directors interested or deemed interested are required to abstain from voting.

## (E) Risk Assessment and Management of Business Risk

Effective risk management is a fundamental part of the Manager's business strategy in order to mitigate any potential loss of value of the Unitholders' investment in MQREIT. The Manager places strong emphasis on risk management as evidenced by the risk management framework that has been set up under an Operation Manual. This provides a structured context for the personnel to undertake a review of the past performance, and to profile the current and future risks facing their area of responsibility.

The Manager operates strictly within overall guidelines and specific parameters set by the Board. Each transaction is comprehensively analysed for an understanding of the risk involved and appropriate controls and measures are put in place before the Manager proceeds to execute these transactions. The Board has determined that significant risk for MQREIT will most likely arise when making property investment decisions. In accordance with this policy, the Board requires comprehensive due diligence to be carried out and the management conducts due diligence in relation to any proposed property investment and third party consultants with the requisite specialised knowledge are also engaged to assist in due diligence exercises when necessary. The Board also requires that each major investment proposal submitted for decision includes a detailed risk assessment, including where appropriate, sensitivity analysis and management's proposed risk mitigation or control strategies.

# CORPORATE GOVERNANCE

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The Board generally meets every quarter or more often if necessary, to review the financial performance of the Manager and MQREIT against the approved budget. The Board also reviews the risks to the assets of MQREIT and acts upon any comments by the auditors of MQREIT. In assessing business risk, the Board considers the economic environment and the property industry risk. The Board and its EXCO review and approve all investment decisions. The management meets regularly to review the operations of the Manager and MQREIT and to discuss continuous disclosure issues. The management is required to ensure that appropriate controls are in place to effectively manage those risks, and such risks and controls are monitored by the Board on a regular basis.

## (F) Whistle-Blowing Policy

The Audit Committee has put in place procedures to provide employees of the Manager with well defined and accessible channels to report on suspected fraud, corruption, dishonest practices or other similar matters relating to MQREIT and the Manager, and for the independent investigation of any reports by employees and appropriate follow up action. The aim of the whistle-blowing policy is to encourage the reporting of such matters in good faith, with the confidence that employees making such reports will be treated fairly, and to the extent possible be protected from reprisal. The whistle-blowing policy is established to promote fraud awareness. The Audit Committee confirms that no reports have been received under the Whistle Blowing Policy thus far.

## COMMUNICATION WITH UNITHOLDERS

The Main Market Listing Requirements require that a listed entity discloses to the market any information considered material, if it is reasonably expected to have a material effect on the price, value or market activity of any listed issuer's securities. In line with the disclosure obligations of MQREIT, the Board adopts a policy to inform its Unitholders in a timely manner of all major developments in its business that impact MQREIT. During the year under review, a continuous disclosure process was in place to ensure compliance with such obligations and was constantly adhered to.

The Manager believes in engaging the Unitholders and other stakeholders by having a regular, effective, unbiased and transparent communication. Communication channels with Unitholders and other stakeholders include:-

- a) annual reports;
- b) various disclosure and announcements to Bursa Malaysia;
- c) analysts and media briefings;
- d) one-on-one/group investor meetings and conference calls;
- e) local and overseas roadshows and conferences;
- f) press releases on major developments of MQREIT; and
- g) MQREIT website at [www.mrcbquillreit.com](http://www.mrcbquillreit.com)

With majority of Units held by institutional investors, the Manager considers meeting with local and foreign fund managers as an integral part of investor relations. During the year under review, the Manager met with institutional and corporate investors from Malaysia, Singapore, Japan and Europe. These meetings with investors enabled the Manager to update potential and current Unitholders on MQREIT's significant developments. The Manager will continue to pursue opportunities to educate and keep retail investors informed of the latest developments in the REIT industry, through seminars and/or roadshows organised by Bursa Securities, the Securities Commission and the Malaysian REIT Managers Association ("MRMA").

During the year, the Manager held several meetings with investment analysts. Corporate presentations are also posted on the Bursa Securities's website and investors can have access to the presentations by downloading from the website.

Unitholders and potential stakeholders have 24-hours access to MQREIT's website for information on MQREIT's major developments, property descriptions, announcements and other corporate information. In addition, the public can pose questions via a dedicated "Enquiries" email address, and have their queries addressed accordingly. Also available on the website is an archive of MQREIT's announcements, press releases, annual reports and operational details. The latest information is posted on the website as soon as it is released to Bursa Securities and the media.



# CORPORATE GOVERNANCE

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## TRADING IN MQREIT UNITS

The Manager adopts best practices and issues guidelines to its Directors and employees which prohibit dealings in MQREIT's Units while in possession of material unpublished price-sensitive information. Under these guidelines, the Directors and employees of the Manager are prohibited from dealing in MQREIT's Units during the period commencing on and from one month prior to the targeted date of announcement of MQREIT's quarterly results to Bursa Malaysia, up to one full market day after the announcement of MQREIT's quarterly results. If any of such affected persons deal in MQREIT's Units during such closed period, they are required to comply with the conditions as set out in Paragraph 14.08 of the Main Market Listing Requirements. They are also made aware of the applicability of the insider trading laws at all times.

# STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

The Board of Directors ("Board") of MRCB Quill Management Sdn Bhd ("the Manager"), as the manager of MRCB-Quill REIT ("MQREIT"), has voluntarily adopted the relevant corporate governance disclosure under the Main Market Listing Requirements of Bursa Malaysia Securities Berhad ("Main Market Listing Requirements") although it is not compulsory for MQREIT, being a real estate investment trust, to comply with such requirements under the Main Market Listing Requirements. In addition, the Board also observes the provisions of the Malaysian Code on Corporate Governance 2012 issued by the Securities Commission Malaysia. The corporate governance framework established within the structure of MQREIT includes the adoption of an Internal Audit function where BDO Governance Advisory Sdn Bhd ("BDO Governance") (Company no: 434278K) was appointed by the Manager to carry out such function of internal audit services on the operations of the Manager. In addition, this Statement on Risk Management and Internal Control is also a voluntary disclosure on the part of the Board in subscribing to a good corporate governance disclosure. Further information on MQREIT's corporate governance framework is also set out on page 50. These efforts are all part of the Board's recognition that a strong corporate governance framework is important. The Board also recognises that an effective corporate governance culture is critical to the Manager's performance and consequently to the success of MQREIT. The Board is committed to maintain a sound system of risk management and internal control with a view to safeguard the interest of the Unitholders, its investment and MQREIT's assets and to provide the following statement, which outline the nature and scope of internal control of the Manager during the financial year ended 31 December 2016.

## BOARD RESPONSIBILITY

In discharging the Board's principal responsibilities, the Board assumes the responsibility for the Manager's system of risk management and internal control. The Board is responsible for the adequacy and integrity of the system of risk management and internal control. It is an essential part of the Board's responsibilities to identify principal risks and ensuring that there are appropriate systems and policies in place to manage these risks; and reviewing the adequacy and integrity of these internal control system and policies. However, the Board acknowledged that this system of risk management and internal control is designed to manage rather than eliminate the risk of failure to achieve the business strategies and objectives of MQREIT. It therefore can only provide reasonable and not absolute assurance against material misstatements, losses or fraud.

The Board has established policies and processes for identifying principal risks when making property investment decisions by MQREIT in order to mitigate any potential loss of value of Unitholders' investment in MQREIT. The Board also considers the changes during the period under review, in particular the business and economic environment and the property industry risk to ensure that there are policies and processes appropriate to manage any potential risk when making property investment decisions and to consider MQREIT's ability to respond to such changes.

The Board defines the processes to be adopted for its review of the adequacy and integrity of internal control. This includes both the scope and frequency of the reports it receives and reviews during the year and for such reports to be accompanied and supported with sound and appropriately assessed documents. The Board's assessment of the adequacy and integrity of MQREIT's system of risk management and internal control includes identifying any significant failings or weaknesses in risk management and internal control and whether necessary actions are being taken promptly to remedy any such significant failings or weakness.

Our Chief Executive Officer has also provided the Board an assurance that MQREIT's risk management and internal control system is operating adequately and effectively, in all material aspect, based on the risk management and internal control system of MQREIT.

## KEY RISK MANAGEMENT AND INTERNAL CONTROL PROCESSES

The key processes that have been established in reviewing the adequacy and integrity of the on-going system of risk management and internal control include the following:

- (a) The Manager has in place an internal audit function which is outsourced to BDO Governance who reports directly to the Audit Committee of its findings and is independent from the management. The principle role of the internal audit function is to conduct regular reviews on the system of risk management and internal control of MQREIT, and report on the effectiveness and efficiency of the operations, risk management and internal control, highlighting to the Audit Committee significant findings in respect of non-compliances, if any. Further detail is as set out on page 59;

# STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

cont'd

The internal audit review undertaken by BDO Governance for the financial year 2016 and the findings arising from the review reported to the Audit Committee include the following:

- (i) internal control review ("ICR") on procurement to payment of property operating expenses and acquisition and divestment of investment properties; and
- (ii) review of related party transactions for the financial year 2016 for compliance with established internal policies and procedures and applicable provisions of the Main Market Listing Requirements and the Guidelines on Real Estate Investment Trusts issued by the Securities Commission Malaysia ("SC REIT Guidelines") relating to related party transactions

and when required, they undertake investigations as directed by the Audit Committee. All findings and recommendations arising from the ICR for financial year 2016 were tabled to the Audit Committee and the reviews were conducted based on an internal audit plan approved by the Audit Committee.

The cost incurred for the internal audit function in respect of the financial year 2016 is RM39,800 (excluding goods and services tax and disbursements) and is borne by the Manager.

The Board is satisfied that the current system of risk management and internal control for the Manager is adequate based on the reports from BDO Governance;

- (b) The Audit Committee reviews, monitors and evaluates the effectiveness and adequacy of MQREIT's internal control, financial and risk management issues raised by the external and internal auditors, regulatory authorities and management. The reviews include reviewing written reports from the internal and external auditors, to ensure that where deficiencies in internal control have been identified, appropriate and prompt remedial action is taken by the management. The Audit Committee also convenes meetings with external auditors, internal auditors, or both excluding the attendance of the other directors and management/employees of the Manager (where necessary). The Audit Committee also reviews the adequacy of the scope, functions and competency of the internal audit function. The Audit Committee also reviews and evaluates the procedures established to ensure compliance with applicable legislations, the SC REIT Guidelines and the Main Market Listing Requirements. Further details of the activities undertaken by the Audit Committee are set out on page 56;
- (c) At the beginning of every financial year, the Board reviews and approves the yearly budget and yearly asset enhancement works prepared by the management. The yearly budget which amongst others will entail revenue to be generated by MQREIT and operating expenses, trust expenses and capital expenditure to be incurred by MQREIT. The management prepares management report on a quarterly basis to update and explain any major variation to the Board on MQREIT's financial results against the yearly budget approved by the Board at the beginning of the financial year, the status of major asset enhancement works carried out on the properties that has been approved by the Board, the status of expiry/renewal of tenancies/leases and other operational matters;
- (d) A risk management framework that provides a structure and framework under an Operation Manual in managing and accessing risk which includes amongst others, policies and procedures for the acquisition of property, financial and operational reporting, continuing listing and compliance obligations. The Operation Manual is subject to periodic review and provides a structured context for the Manager and personnel to undertake a review of the past performance and to profile the current and future risks facing their area of responsibility;
- (e) There is a set of risk management and internal control system which sets out the approval/authority limits imposed on directors and management for operating and capital expenditure, investments and divestments, bank borrowings, lease renewals and other operational matters. A set of authorized signatories were also established for cheque signatories' arrangements. The Board approves transactions exceeding certain threshold limits, while delegating authority for transactions below those limits to Board Committees. Appropriate delegation of authority is also provided at management level to facilitate operational efficiency. Further, the Board and its committees operate within a clearly defined terms of reference with delegation of responsibilities clearly set out;
- (f) Internal control procedures to ensure that related party transactions are undertaken in compliance with the SC REIT Guidelines, the Main Market Listing Requirements and the Trust Deed; and are carried out on arm's length basis and on normal commercial terms, which are in the best interests of the Unitholders of MQREIT. The Manager incorporates into its annual internal audit plan, a review of all related party transactions. The Audit Committee reviews the internal audit reports to ascertain that the guidelines and procedures established to monitor related party transactions have been complied with. The established procedures are further explained on page 59 and 61;

# STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

cont'd

- (g) Policies, guidelines and processes for dealing with any potential conflicts of interest. This is explained in further detail on page 61. In order to deal with any potential conflict of interest situations that may arise, the Manager's policy is that any such related party transaction, dealing, investment and appointment carried out for and on behalf of MQREIT are to be executed on terms that are best available to MQREIT and which are no less favourable to MQREIT than on arm's length transactions between independent parties; and
- (h) Whistle-blowing policy to provide employees of the Manager with well-defined procedures and accessible channels to report on suspected fraud, corruption, dishonest practices or other similar matters relating to MQREIT and the Manager, and for independent investigation of any reports by employees and appropriate follow up action. The whistle-blowing policy is established to promote fraud awareness and the aim of this policy is to encourage the reporting of such matters in good faith, with the confidence that employees making such reports will be treated fairly, and to the extent possible be protected from reprisal.
- (i) Scheduled regular meetings of the Board, AC with representation from the management provide the key to systematic monitoring of MQREIT's activities and for identifying, evaluating and managing the significant risks faced by MQREIT. The Chief Executive Officer is entrusted to manage the daily operations of the Manager and MQREIT and holds the responsibility of leading the respective heads of departments towards achieving the identified objectives.
- (j) In order to maintain quality and efficiency, the Manager's personnel across all functions are given the opportunity to attend relevant trainings. A systematic staff performance appraisal mechanism has also been adopted to ensure adequate and sufficient rewards are awarded to well-deserving personnel.

## REVIEW OF THIS STATEMENT BY EXTERNAL AUDITORS

The external auditors have reviewed this Statement of Risk Management and Internal Control for inclusion in the annual report for financial year 2016 and reported to the Board that nothing has come to their attention that causes them to believe that this Statement is inconsistent with their understanding of the process adopted by the Board in reviewing the adequacy and integrity of the system of internal control.

## CONCLUSIONS

The Board is of the view that the risk management and internal control system in place for the financial year ended 31 December 2016 under review and up to the date of issuance of the annual report and financial statements is sound and sufficient to safeguard the interest of the Unitholders, its investment and MQREIT's assets.



## STATEMENT ON DIRECTORS' RESPONSIBILITY

For preparing the Annual Audited Financial Statements

In accordance with Paragraph 15.26(a) of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad, the Board of Directors ("Directors") of MRCB Quill Management Sdn Bhd, is responsible to ensure that the financial statements for the financial year ended 31 December 2016 have been prepared and drawn out in accordance with the applicable Financial Reporting Standards in Malaysia, applicable provisions of the Trust Deed dated 9 October 2006 as amended by the Supplemental Deed dated 27 August 2007, Second Supplemental Deed dated 28 May 2013 and the Third Supplemental Deed dated 2 April 2015 and the Guidelines on Real Estate Investment Trusts issued by the Securities Commission Malaysia, so as to give a true and fair view of the financial position of MQREIT as at 31 December 2016 and of its financial performance and cash flows for the year then ended.

In preparing the financial statements for the financial year ended 31 December 2016, the Directors have:

- adopted appropriate accounting policies and applied them consistently;
- made judgments and estimates that are reasonable and prudent; and
- prepared the financial statements on a going concern basis.

# THE MANAGER'S REPORT

MRCB Quill Management Sdn. Bhd. ("MQM"), being the manager (the "Manager") of MRCB-Quill REIT ("MQREIT"), is pleased to present the Manager's Report on MQREIT together with the audited financial statements of MQREIT for the financial year ended 31 December 2016.

## **MQREIT, the Manager and their principal activities**

MQREIT was constituted under a Deed dated 9 October 2006 (the "Trust Deed"), by MQM as the Manager and Maybank Trustees Berhad as the trustee (the "Trustee"); a Supplemental Deed dated 27 August 2007; a Second Supplemental Deed dated 28 May 2013 and Third Supplemental Deed dated 2 April 2015, and is categorised as a real estate investment trust. MQREIT commenced its operations in 2006 and was listed on the Main Market of Bursa Malaysia Securities Berhad ("Bursa Malaysia") on 8 January 2007.

The principal activity of MQREIT involves acquisition of and investment in commercial properties, primarily in Malaysia. The principal activity of each of the special purpose entities of MQREIT is to facilitate financing for MQREIT as disclosed in Note 23 to the financial statements. There have been no significant changes in the nature of these activities during the financial year.

The Manager is a company incorporated in Malaysia. The principal activity of the Manager is to manage MQREIT. There has been no significant change in the nature of this activity during the financial year.

## **Manager's fees and commission**

Pursuant to the Trust Deed, the Manager is entitled to receive from MQREIT:

- (i) Base fee of 0.4% per annum of the gross asset value, payable monthly in arrears;
- (ii) Performance fee of 3% per annum on the net investment income, payable semi-annually in arrears;
- (iii) Acquisition fee of 1% of the acquisition value of any asset, being authorised investments, acquired by MQREIT; and
- (iv) Divestment fee of 0.5% of the disposal value of any asset divested by MQREIT.

The Manager's remuneration is accrued and paid in accordance with the Trust Deed. No fee or commission has been earned by the Manager in managing MQREIT other than as disclosed in Note 8 to the financial statements.

During the financial year, the Manager did not receive any soft commission (such as goods or services) from its broker, by virtue of transaction conducted by MQREIT.

## **Term of Trust**

MQREIT will continue its operations until such time as determined by the Trustee and the Manager as provided under Clause 26 of the Trust Deed.

## **Investment objective**

The investment objective of MQREIT is to acquire and invest in commercial properties primarily in Malaysia with a view to provide long-term growth and sustainable distribution of income to unitholders and to achieve long-term growth in the net asset value per unit of MQREIT.

# THE MANAGER'S REPORT

cont'd

## Investment strategies

The Manager plans to achieve the key investment objectives while seeking additional income growth and enhancement of MQREIT's property portfolio over time through the strategies as mentioned below:

### (a) Acquisition growth and portfolio management strategy

The Manager seeks to selectively acquire additional properties that meet the investment criteria to enhance yields and return while improving portfolio diversification. The acquisition strategy takes into consideration rental yield, occupancy and tenant characteristics, location, value-adding opportunities, and building and facilities specifications.

The Manager intends to hold the properties on a long-term basis. However, at the appropriate time, the Manager will recommend an adjustment of the portfolio mix through acquisition or sale of one or more of the authorised investments or commercial properties with the objective of maximising total returns to unitholders. The proceeds from such sales would be either deployed to purchase other attractive authorised investments or, in the absence of appropriate investments, distributed to unitholders.

### (b) Active asset management strategy

The Manager intends to increase the property yield of existing commercial space and correspondingly maximising returns from the existing commercial space by implementing the following:

- (i) Maximisation of tenant retention through proactive tenant management and efficient property related services;
- (ii) Diversification of tenant base to balance exposure to certain business sectors that are more susceptible to general economic cycles;
- (iii) Implementation of proactive marketing plans;
- (iv) Continued minimisation of property expenses without compromising on the quality of service; and
- (v) Asset enhancement by constantly improving and maintaining the quality and physical condition of the properties in MQREIT's portfolio.

### (c) Capital management strategy

The Manager employs appropriate debt and equity financing policies in financing acquisition and/or asset enhancements, and utilises appropriate hedging strategies to optimise risk adjusted returns to unitholders.

The Manager aims to optimise MQREIT's capital structure and cost of capital within the borrowing limits set out in the Guidelines on Real Estate Investment Trusts issued by Securities Commission ("SC REIT Guidelines") and intends to use a combination of debt and equity to fund future acquisitions and improvement works. The strategies involve:

- (i) Adopting and maintaining an optimal gearing level; and
  - (ii) Adopting an active interest rate management strategy to manage the risk associated with changes in interest rates,
- while maintaining flexibility in MQREIT's capital structure to meet future investment and/or capital expenditure requirements.

There were no changes in the strategies adopted during the financial year, which are in line with those as stated in the prospectus dated 11 December 2006.

As these strategies still remain relevant for MQREIT under the current market conditions, the Manager will continue to adopt them in the coming year.

# THE MANAGER'S REPORT

cont'd

## Investment policies

MQREIT's investments are subject to the investment limits imposed by the SC REIT Guidelines.

The Manager will continue to comply with the SC REIT Guidelines and other requirements as imposed by the Securities Commission ("SC") from time to time and the Trust Deed.

## Performance of MQREIT

### (i) Review of financial results for the financial year ended 31 December 2016

|   | Actual<br>Financial<br>year ended<br>31 December<br>2016<br>("FY 2016")<br>RM | Actual<br>Financial<br>year ended<br>31 December<br>2015<br>("FY 2015")<br>RM |
|---|---|---|
| Net property income   | 107,154,943   | 95,386,840  |
| Net realised income   | 59,155,963  | 54,020,625  |
| Realised earnings per unit ("EPU") [(sen)]                      | 8.80  | 9.06  |
| Total distribution relating to the income of the financial year | 55,423,728  | 50,919,471  |
| Distribution per unit ("DPU") [(sen)]                           | 8.38  | 8.47  |

As compared with the last financial year, FY 2015, net property income of RM107.2 million is higher by 12.3% mainly due to additional income arising from the acquisition of Menara Shell on 22 December 2016 and Platinum Sentral on 30 March 2015 respectively, and rental rate increases of some properties. The realised income of RM59.16 million is higher by 9.5% mainly due to higher net property income and higher interest income, net of higher finance costs, manager's fee, trustee's fee and administrative expenses.

Notwithstanding the higher FY 2016 realised net income, the EPU of 8.80 sen for FY 2016 is lower than the EPU of 8.96 sen for FY 2015. This is due to higher weighted average number of MQREIT units recorded in FY 2016 arising from the issuance of 406,619,000 new MQREIT units on 22 December 2016 pursuant to the placement exercise.

MQREIT has achieved a total DPU of 8.38 sen for the FY 2016. Income distribution of 4.23 sen per unit being the distribution of income for the period of 1 January 2016 to 30 June 2016 were paid on 8 September 2016; and special gross distribution of 4.15 sen per unit relating to the distribution of income for the period of 1 July 2016 to 16 December 2016, were paid on 13 January 2017 to all unitholders as at book closure date on 16 December 2016.

The Manager's active asset management strategy throughout the year has ensured successful tenancy renewals for most of the leases due in 2016. MQREIT's occupancy rate for the year stood at 97% in terms of Net Lettable Area ("NLA").

The performance of MQREIT for the FY 2016 was in line with its investment objective.

### (ii) Analysis of MQREIT's performance based on changes in net asset value ("NAV") and NAV per unit since the previous financial year

For the FY 2016, MQREIT's total NAV and NAV per unit after the special income distribution amounted to RM1,359.70 million and RM1.2731 per unit (2015: total NAV and NAV per unit after the final income distribution amounted to RM903.85 million and RM1.3229 per unit), mainly due to increase in number of units issued; net change in fair values of investment properties of RM3.54 million (2015: RM6.68 million) and net changes in fair values of derivatives.

### (iii) Analysis of MQREIT's performance based on changes in price since the previous financial year

For the FY 2016, the unit price of MQREIT has increased from RM1.08 at the close of trade as at 31 December 2015 to RM1.20 at the close of trade as at 31 December 2016. The Manager believes that the movement in price is due to changes in market sentiment.



# THE MANAGER'S REPORT

cont'd

## Composition of investment portfolio

As at 31 December 2016, MQREIT's portfolio comprised eleven commercial buildings. There was one acquisition namely Menara Shell during the financial year ended 31 December 2016. The details of the portfolio are as follows:

### (a) Quill Building 1 - DHL 1 ("QB1")

|   |   |
|---|---|
| Address/location  | 3509 & 3511 Jalan Teknokrat 5, 63000 Cyberjaya, Selangor Darul Ehsan          |
| Property type and age                                   | Commercial building, 14 years   |
| Description   | 4-storey office building together with a sub-basement and a basement car park |
| Tenure  | Term in perpetuity  |
| Net lettable area ("NLA")                               | 92,284 square feet ("sq. ft.")  |
| Existing use  | Commercial building   |
| Parking space   | 315 lots  |
| Date of acquisition                                     | 20 November 2006  |
| Acquisition price                                       | RM52,100,000  |
| Tenant  | DHL Information Services (Asia-Pacific) Sdn. Bhd.                             |
| Tenancy period  | 7 + 3 + 3 + 2 years from 1 April 2002<br>5 + 5 years from 1 January 2016      |
| Occupancy rate  | 100%  |
| Maintenance costs and capital expenditure for the year  | RM646,659   |
| Encumbrances  | Charged to Malaysian Trustees Berhad as security agent                        |
| Date of last valuation                                  | 31 December 2016  |
| Market value/net carrying amount as at 31 December 2016 | Note (i)  |
| Name of valuer  | Nawawi Tie Leung Property Consultants Sdn. Bhd.                               |

# THE MANAGER'S REPORT

cont'd

## Composition of investment portfolio (cont'd)

### (b) Quill Building 4 - DHL 2 ("QB4")

|   |  |
|---|--|
| Address/location  | 3509 & 3511, Jalan Teknokrat 5, 63000 Cyberjaya, Selangor Darul Ehsan                |
| Property type and age                                   | Commercial building, 11 years  |
| Description   | 4-storey office building together with a sub-basement and 2 levels basement car park |
| Tenure  | Term in perpetuity   |
| Net lettable area ("NLA")                               | 99,183 sq. ft.   |
| Existing use  | Commercial building  |
| Parking space   | 309 lots   |
| Date of acquisition                                     | 20 November 2006   |
| Acquisition price                                       | RM57,000,000   |
| Tenant  | DHL Information Services (Asia-Pacific) Sdn. Bhd.                                    |
| Tenancy period  | 7 + 3 + 2 years from 1 April 2006<br>5 + 5 years from 1 January 2016                 |
| Occupancy rate  | 100%   |
| Maintenance costs and capital expenditure for the year  | RM592,894  |
| Encumbrances  | Charged to Malaysian Trustees Berhad as security agent                               |
| Date of last valuation                                  | 31 December 2016   |
| Market value/net carrying amount as at 31 December 2016 | Note (i)   |
| Name of valuer  | Nawawi Tie Leung Property Consultants Sdn. Bhd.                                      |

*Note (i) The respective pieces of land on which QB1 and QB4 are situated have been amalgamated on 14 August 2008 pursuant to the conditions imposed by the SC during the initial public offering of MQREIT. As such, the valuations for QB1 and QB4 have since been carried out based on the amalgamated properties. Based on the latest valuation dated 31 December 2016, the total aggregate valuation of the two properties amounted to RM126,500,000.*

# THE MANAGER'S REPORT

cont'd

## Composition of investment portfolio (cont'd)

### (c) Quill Building 2 - HSBC ("QB2")

|   |  |
|---|--|
| Address/location  | 3500, Jalan Teknokrat 3, 63000 Cyberjaya, Selangor Darul Ehsan |
| Property type and age                                   | Commercial building, 13 years                                  |
| Description   | 4-storey office building together with a sub-basement car park |
| Tenure  | Term in perpetuity   |
| Net lettable area ("NLA")                               | 184,453 sq. ft.  |
| Existing use  | Commercial building  |
| Parking space   | 505 lots   |
| Date of acquisition                                     | 20 November 2006   |
| Acquisition price                                       | RM107,500,000  |
| Tenant  | HSBC Electronic Data Processing (Malaysia) Sdn. Bhd.           |
| Tenancy period  | 6 + 3 + 2 + 5 + 3 years from 10 November 2003                  |
| Occupancy rate  | 100%   |
| Maintenance costs and capital expenditure for the year  | RM2,029,682  |
| Encumbrances  | Charged to Malaysian Trustees Berhad as security agent         |
| Date of last valuation                                  | 31 December 2016   |
| Market value/net carrying amount as at 31 December 2016 | RM121,700,000  |
| Name of valuer  | Nawawi Tie Leung Property Consultants Sdn. Bhd.                |

# THE MANAGER'S REPORT

cont'd

## Composition of investment portfolio (cont'd)

### (d) Quill Building 3 - BMW ("QB3")

|                           |   |
|---------------------------|---|
| Address/location          | 3501, Jalan Teknokrat 5, 63000 Cyberjaya, Selangor Darul Ehsan                                  |
| Property type and age     | Commercial building, 12 years   |
| Description               | 4-storey office building together with a level of sub-basement and a level of basement car park |
| Tenure                    | Term in perpetuity  |
| Net lettable area ("NLA") | 117,198 sq. ft.   |
| Existing use              | Commercial building   |
| Parking space             | 340 lots  |
| Date of acquisition       | 20 November 2006  |
| Acquisition price         | RM59,400,000  |

#### Major tenant and tenancy details:

|   |   |
|---|---|
| Tenant  | BMW Asia Technology Centre Sdn. Bhd.  |
| Tenancy period  | Ground floor: 5 + 3 + 3 years from 1 December 2004<br>First floor: 5 + 3 + 1 + 1 + 0.25 years from 1 December 2004<br>10 years from 7 July 2015 |
| Tenant  | BMW Malaysia Sdn. Bhd.  |
| Tenancy period  | 5 + 3 + 1 + 1 + 0.25 years from 1 December 2004<br>10 years from 7 July 2015  |
| Tenant  | PGS Data Processing & Technology Sdn. Bhd.  |
| Tenancy period  | 5 + 5 + 5 years from 1 January 2007   |
| Tenant  | Agensi Inovasi Malaysia   |
| Tenancy period  | 2 + 0.5 + 0.5 + 1.5 years from 1 July 2011<br>2 + 2 years from 1 January 2016   |
| Tenant  | Huawei Technologies (Malaysia) Sdn. Bhd.  |
| Tenancy period  | 3 + 3 years from 1 February 2012  |
| Tenant  | BMW Credit (Malaysia) Sdn. Bhd.   |
| Tenancy period  | 8.8 + 3 + 3 years from 1 October 2016   |
| Occupancy rate  | 91%   |
| Maintenance costs and capital expenditure for the year  | RM4,702,885   |
| Encumbrances  | Nil   |
| Date of last valuation                                  | 31 December 2016  |
| Market value/net carrying amount as at 31 December 2016 | RM76,500,000  |
| Name of valuer  | Nawawi Tie Leung Property Consultants Sdn. Bhd.   |



# THE MANAGER'S REPORT

cont'd

## Composition of investment portfolio (cont'd)

### (e) Wisma Technip ("WT")

|   |   |
|---|---|
| Address/location  | 241, Jalan Tun Razak, 50400 Kuala Lumpur  |
| Property type and age                                   | Office building, 23 years   |
| Description   | 12-storey office building with a mezzanine floor and 3 split-levels basement car park |
| Tenure  | Term in perpetuity  |
| Net lettable area ("NLA")                               | 233,021 sq. ft.   |
| Existing use  | Office building   |
| Parking space   | 308 lots  |
| Date of acquisition                                     | 3 September 2007  |
| Acquisition price                                       | RM125,000,000   |
| Tenant  | Technip Geoproduction (M) Sdn. Bhd.   |
| Tenancy period  | 5 + 2 + 5 + 2 years from 1 January 2007   |
| Occupancy rate  | 100%  |
| Maintenance costs and capital expenditure for the year  | RM3,469,596   |
| Encumbrances  | Charged to Hong Leong Investment Bank Berhad as security agent                        |
| Date of last valuation                                  | 31 December 2016  |
| Market value/net carrying amount as at 31 December 2016 | RM173,000,000   |
| Name of valuer  | CH Williams Talhar & Wong Sdn. Bhd.   |

# THE MANAGER'S REPORT

cont'd

## Composition of investment portfolio (cont'd)

### (f) Commercial retail shops and car park lots of Plaza Mont' Kiara (part of Plaza Mont' Kiara) [("PMK")]

|   |  |
|---|--|
| Address/location  | Plaza Mont' Kiara<br>2, Jalan Kiara, Mont' Kiara, 50480 Kuala Lumpur   |
| Property type and age                                   | Commercial lots and car parks, 14 years  |
| Description   | An integrated retail/office commercial units located in Plaza Mont' Kiara, within the ground floors of Blocks A & B, Blocks C & D and at the basement and ground floor of Block E. The car park lots are located in Blocks A, B, C, D and E. |
| Tenure  | Term in perpetuity   |
| Net lettable area ("NLA")                               | 73,408 sq. ft. (excluding 1,499 car park lots)   |
| Existing use  | Retail and car park  |
| Parking space   | 1,499 lots   |
| Date of acquisition                                     | 3 September 2007   |
| Acquisition price                                       | RM90,000,000   |
| Tenant  | Multi-tenanted retail tenants from various sectors, such as banking, food & beverages, beauty & fashion and convenient stores  |
| Tenancy period  | Ranging between 1 to 3 years tenancy   |
| Occupancy rate  | 87%  |
| Maintenance costs and capital expenditure for the year  | RM3,329,999  |
| Encumbrances  | Charged to Hong Leong Investment Bank Berhad as security agent   |
| Date of last valuation                                  | 31 December 2016   |
| Market value/net carrying amount as at 31 December 2016 | RM116,000,000  |
| Name of valuer  | CH Williams Talhar & Wong Sdn. Bhd.  |

# THE MANAGER'S REPORT

cont'd

## Composition of investment portfolio (cont'd)

### (g) Quill Building 5 - IBM ("QB5")

|   |   |
|---|---|
| Address/location  | 3500, Jalan Teknokrat 3, 63000 Cyberjaya, Selangor Darul Ehsan                              |
| Property type and age                                   | Commercial buildings, 9 years   |
| Description   | 5-storey office building with a level of sub-basement and 1 1/2 levels of basement car park |
| Tenure  | Term in perpetuity  |
| Net lettable area ("NLA")                               | 81,602 sq. ft.  |
| Existing use  | Commercial building   |
| Parking space   | 241 lots  |
| Date of acquisition                                     | 14 March 2008   |
| Acquisition price                                       | RM43,000,000  |
| Tenant  | IBM Malaysia Sdn. Bhd.  |
| Tenancy period  | 3 + 2 + 1.4 + 3 + 3 years from 15 January 2008<br>3 + 3 + 3 years from 1 June 2011          |
| Occupancy rate  | 91%   |
| Maintenance costs and capital expenditure for the year  | RM2,645,248   |
| Encumbrances  | Charged to Hong Leong Investment Bank Berhad as security agent                              |
| Date of last valuation                                  | 31 December 2016  |
| Market value/net carrying amount as at 31 December 2016 | RM45,300,000  |
| Name of valuer  | Nawawi Tie Leung Property Consultants Sdn. Bhd.   |

# THE MANAGER'S REPORT

cont'd

## Composition of investment portfolio (cont'd)

### (h) Quill Building 8 - DHL XPJ ("QB8")

|   |   |
|---|---|
| Address/location  | 8, Jalan Pemaju U1/15, Seksyen U1, 40150 Shah Alam, Selangor Darul Ehsan  |
| Property type and age                                   | Industrial building, 10 years   |
| Description   | 3-storey office building with an annexed single storey detached warehouse |
| Tenure  | Term in perpetuity  |
| Net lettable area ("NLA")                               | 65,205 sq. ft.  |
| Existing use  | Office building   |
| Parking space   | Nil   |
| Date of acquisition                                     | 25 March 2008   |
| Acquisition price                                       | RM28,800,000  |
| Tenant  | DHL Express (Malaysia) Sdn. Bhd.  |
| Tenancy period  | 5 + 5 years from 1 July 2006<br>3 + 3 years from 1 July 2016              |
| Occupancy rate  | 92%   |
| Maintenance costs and capital expenditure for the year  | RM208,875   |
| Encumbrances  | Charged to Hong Leong Investment Bank Berhad as security agent            |
| Date of last valuation                                  | 31 December 2016  |
| Market value/net carrying amount as at 31 December 2016 | RM25,000,000  |
| Name of valuer  | Nawawi Tie Leung Property Consultants Sdn. Bhd.                           |



# THE MANAGER'S REPORT

cont'd

## Composition of investment portfolio (cont'd)

### (i) Tesco Building, Penang ("Tesco")

|   |  |
|---|--|
| Address/location  | 1, Lebuhr Tengku Kudin 1, 11700 Penang                 |
| Property type and age                                   | Commercial building, 12 years                          |
| Description   | 3-storey purpose built hypermarket                     |
| Tenure  | Term in perpetuity                                     |
| Net lettable area ("NLA")                               | 275,020 sq. ft.  |
| Existing use  | Commercial building                                    |
| Parking space   | 1,050 lots   |
| Date of acquisition                                     | 7 November 2008  |
| Acquisition price                                       | RM132,000,000  |
| Tenant  | Tesco Stores (Malaysia) Sdn. Bhd.                      |
| Tenancy period  | 29 October 2004 to 31 August 2032                      |
| Occupancy rate  | 100%   |
| Maintenance costs and capital expenditure for the year  | RM641,193  |
| Encumbrances  | Charged to Malaysian Trustees Berhad as security agent |
| Date of last valuation                                  | 31 December 2016                                       |
| Market value/net carrying amount as at 31 December 2016 | RM140,000,000  |
| Name of valuer  | Nawawi Tie Leung Property Consultants Sdn. Bhd.        |

# THE MANAGER'S REPORT

cont'd

## Composition of investment portfolio (cont'd)

### (j) Platinum Sentral

|                           |   |
|---------------------------|---|
| Address/location          | Platinum Sentral, Jalan Stesen Sentral 2, Kuala Lumpur Sentral, 50470 Kuala Lumpur  |
| Property type and age     | Commercial building, 5 years  |
| Description               | A commercial development consisting of 5 blocks of 4 - 7 storey commercial buildings consisting of office-cum retail space, a multi-purpose hall together with 2 levels of car park |
| Tenure                    | Term in perpetuity  |
| Net lettable area ("NLA") | 476,370 sq. ft.   |
| Existing use              | Commercial building   |
| Parking space             | 637 lots  |
| Date of acquisition       | 30 March 2015   |
| Acquisition price         | RM740,000,000   |

#### Major tenant and tenancy details:

|   |   |
|---|---|
| Tenant  | Small and Medium Enterprise Corporation Malaysia  |
| Tenancy period  | 15 + 3 years from 1 July 2011   |
| Tenant  | SBM Malaysia Sdn. Bhd.  |
| Tenancy period  | 3 + 3 + 3 + 3 + 3 years from 28 October 2011  |
| Tenant  | Suruhanjaya Pengangkutan Awam Darat   |
| Tenancy period  | 3 + 3 + 3 + 3 + 3 years from 1 March 2012   |
| Tenant  | Remaining: Multi-tenanted office-cum retail tenants from various sectors from government-linked office, education, food & beverages, fitness and convenient stores. |
| Tenancy period  | Ranging between 1 to 3 years tenancy  |
| Occupancy rate  | 99%   |
| Maintenance costs and capital expenditure for the year  | RM10,786,239  |
| Encumbrances  | Charged to Pacific Trustees Berhad as security agent  |
| Date of last valuation                                  | 31 December 2016  |
| Market value/net carrying amount as at 31 December 2016 | RM750,000,000   |
| Name of valuer  | CH Williams Talhar & Wong Sdn. Bhd.   |

# THE MANAGER'S REPORT

cont'd

## Composition of investment portfolio (cont'd)

### (k) Menara Shell

|   |   |
|---|---|
| Address/location  | Menara Shell, No. 211, Jalan Tun Sambathan, 50470 Kuala Lumpur  |
| Property type and age                                   | Commercial building, 3 years  |
| Description   | One block of 33-storey stratified office building erected on a 5-storey podium and 4 levels of basement car park  |
| Tenure  | Term in perpetuity  |
| Net lettable area ("NLA")                               | 557,053 sq. ft.   |
| Existing use  | Commercial building   |
| Parking space   | 915 lots  |
| Date of acquisition                                     | 22 December 2016  |
| Acquisition price                                       | RM640,000,000   |
| <b>Major tenant and tenancy details:</b>                |   |
| Tenant  | Shell People Services Asia Sdn. Bhd.  |
| Tenancy period  | 15 + 5 years from 1 November 2013   |
| Tenant  | AmGeneral Insurance Berhad  |
| Tenancy period  | 3 + 3 + 3 + 3 + 3 years from 1 August 2015  |
| Tenant  | Tradewinds Corporation Berhad   |
| Tenancy period  | 3 + 0.5 years from 1 November 2013  |
| Tenant  | YM Consultant Sdn. Bhd.   |
| Tenancy period  | 3 + 3 + 3 years from 1 November 2014  |
| Tenant  | JLT Asia Shared Services Sdn. Bhd.  |
| Tenancy period  | 3 + 3 + 3 years from 1 November 2013  |
| Tenant  | Advance Defense Systems Sdn. Bhd.   |
| Tenancy period  | 3 + 3 years from 1 January 2014   |
| Tenant  | Coca-Cola Far East Limited  |
| Tenancy period  | 3 + 3 + 3 years from 7 June 2014  |
| Tenant  | Saipem Asia Sdn. Bhd.   |
| Tenancy period  | 3 + 2 + 2 years from 1 November 2014  |
| Tenant  | Remaining: Multi-tenanted office-cum retail tenants from various sectors from food & beverages, banking hall, clinic, childcare centre and convenient stores. |
| Tenancy period  | Ranging between 1 to 3 years tenancy  |
| Occupancy rate  | 100%  |
| Maintenance costs and capital expenditure for the year  | RM489,409   |
| Encumbrances  | Charged to Pacific Trustees Berhad as security agent  |
| Date of last valuation                                  | 31 December 2016  |
| Market value/net carrying amount as at 31 December 2016 | RM648,000,000   |
| Name of valuer  | CH Williams Talhar & Wong Sdn. Bhd.   |

# THE MANAGER'S REPORT

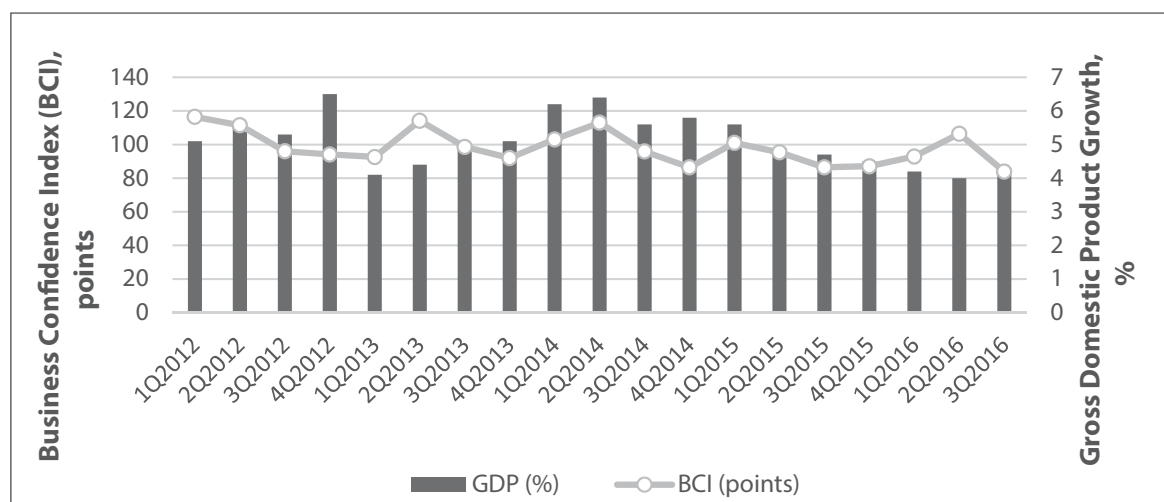
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## Review of the market in which MQREIT invests in during the period and future prospects of the market

### 1 Purpose-Built Office ("PBO") Sector <sup>1</sup>

#### 1.1 General

##### ■ Summary of Growth Domestic Product ("GDP") and Business Consumer Index ("BCI")



Source: Malaysian Institute of Economic Research (MIER) and Bank Negara Malaysia

The business prospect in Malaysia has turned cautious due to the challenging global economy. The Business Consumer Index ("BCI") fell to 83.9 points in Q3 2016 (Q2 2016: 106.9 points).

Nevertheless, the Malaysian economy expanded by 4.30% as at 3Q 2016 (2Q 2016: 4.00%), supported mainly by the services and manufacturing sectors.

Investment activities continued to be anchored by on-going infrastructure projects despite the softening in the oil & gas industry. Investment prospects remain firm, driven by the depreciated Ringgit which favours foreign investment activities in Malaysia.

Despite concerns on the mixed global economic outlook, Malaysia with its competitive economy, comparatively lower operating costs and pro-business regulatory structure and tax incentives, its major city, i.e. Kuala Lumpur continues to attract foreign investments.

<sup>1</sup> Based on CH Williams Talhar & Wong ("WTW") Research, purpose-built offices in the Klang Valley may be referred to as private modern and free standing multi-storey buildings with present day conveniences, amenities and adequate car parking facilities for tenants/visitors and aged not more than 30 years (However, we may include offices which have undertaken major refurbishment works and office building(s) within an integrated commercial development). These buildings are generally categorized as:

"Grade A/Premium A" or Prime office buildings: Refer to high quality modern space, largely column free and includes recent generation of building services and amenities. These buildings are situated in premier location and possibly in major suburban towns.

Non-prime office buildings are referred to as buildings of reasonably good or good quality modern office space and older buildings situated anywhere in Klang Valley.



# THE MANAGER'S REPORT

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## Review of the market in which MQREIT invests in during the period and future prospects of the market (cont'd)

### 1 Purpose-Built Office ("PBO") Sector (cont'd)

#### 1.2 Klang Valley <sup>2</sup>

##### 1.2.1 Supply and Demand

##### ■ Summary of Purpose Built Office Market Overview (as at Q4 2016)

| Supply                           | Klang Valley | Zone   |        |        |
|----------------------------------|--------------|--------|--------|--------|
|                                  |              | CKL    | MKL    | GKL    |
| Existing Supply (million sq. ft) | 103.530      | 45.314 | 43.233 | 14.983 |
| % of Share                       |              | 43.8%  | 41.8%  | 14.4%  |
| Future Supply (million sq. ft)   | 8.250        | 4.770  | 3.050  | 0.430  |
| % of Share                       |              | 57.8%  | 37.0%  | 5.2%   |
| Performance                      | Klang Valley | Zone   |        |        |
|                                  |              | CKL    | MKL    | GKL    |
| Vacancy Rate                     | 17.3%        | 14.3%  | 17.1%  | 27.3%  |

Source: CBRE|WTW Research, December 2016

As at 4Q 2016, Klang Valley ("KV") has a cumulative supply of 103.530 million sq. ft of office space with 3 completions recorded during the quarter; namely Vertical Tower (Corporate Tower), Menara Hong Leong @ Damansara City and Mercu Mustapha Kamal @ Neo Damansara. 43.8% (or 45.310 million sq. ft) are located in Central Kuala Lumpur; with the bulk located within Golden Triangle (57% or 25.910 million sq. ft) and remaining in secondary area (43% or 19.400 million sq. ft).

The existing supply of office space in Cyberjaya/Putrajaya during the review period i.e. 4Q 2016 stood at 9.010 million sq. ft. of which 5.350 million sq. ft. in Cyberjaya and 3.660 million sq. ft. in Putrajaya, representing 60.13% of the total supply in GKL.

The existing purpose-built offices in Putrajaya are generally located within Precinct 1 to Precinct 4. Majority of the purpose-built office buildings are government offices, there is private purpose-built office buildings in the locality.

<sup>2</sup> As defined by CBRE-WTW Research; Klang Valley ("KV") refers to three (3) main zones namely, Central Kuala Lumpur ("CKL"), Metropolitan Kuala Lumpur ("MKL") as well as Greater Kuala Lumpur ("GKL") which are further described as follows:

| Zone | Terminology               | Description   |
|------|---------------------------|---|
| CKL  | Central Kuala Lumpur      | The areas bounded by Jalan Tun Razak, Jalan Sungai Besi, Jalan Istana, Jalan Damansara and Lebuhraya Mahameru   |
| MKL  | Metropolitan Kuala Lumpur | The areas outside CKL bounded by Batu Caves area in the north, Ampang/Ulu Kelang area in the east, Bukit Jalil/Sungai Besi area in the south and Petaling Jaya/Damansara area in the west |

# THE MANAGER'S REPORT

cont'd

## Review of the market in which MQREIT invests in during the period and future prospects of the market (cont'd)

### 1 Purpose-Built Office ("PBO") Sector (cont'd)

#### 1.2 Klang Valley (cont'd)

##### 1.2.1 Supply and Demand (cont'd)

As defined by CBRE-WTW Research; Klang Valley ("KV") refers to three (3) main zones namely, Central Kuala Lumpur ("CKL"), Metropolitan Kuala Lumpur ("MKL") as well as Greater Kuala Lumpur ("GKL") which are further described as follows: (cont'd)

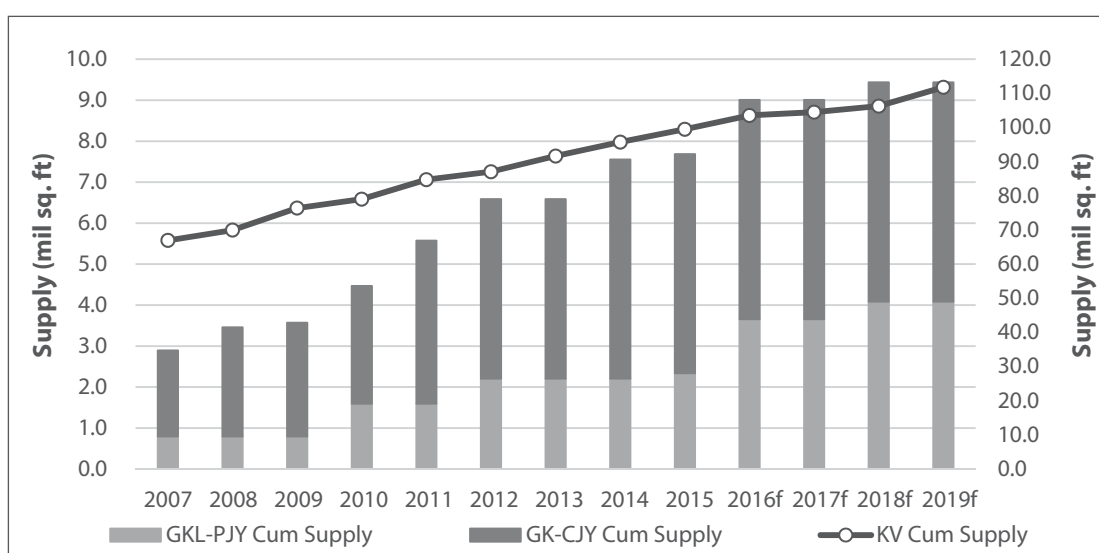
| Zone | Terminology          | Description  |
|------|----------------------|--|
| GKL  | Greater Kuala Lumpur | Areas under the municipalities/districts of Selayang, Kajang, Subang Jaya, Shah Alam, Klang, Putrajaya, Sepang, Kuala Selangor (Jeram and Ijok area only) and Hulu Selangor (Serendah area only) |

Generally, the KV comprised of:

- Kuala Lumpur ("KL") area refers to CKL and MKL (which excludes Petaling Jaya area)
- Outside KL ("OKL") refers to GKL and Petaling Jaya area

The chart below illustrates the cumulative supply of purpose-built office space in Cyberjaya and Putrajaya (2007 to 2019<sup>f</sup>).

#### ■ Cumulative Supply of Purpose-built Office Buildings in Klang Valley and Cyberjaya & Putrajaya (2007 to 2019<sup>f</sup>)



Abbreviation: f - forecast, cum - cumulative

Source: CBRE|WTW Research, December 2016

# THE MANAGER'S REPORT

cont'd

## Review of the market in which MQREIT invests in during the period and future prospects of the market (cont'd)

### 1 Purpose-Built Office ("PBO") Sector (cont'd)

#### 1.2 Klang Valley (cont'd)

##### 1.2.1 Supply and Demand (cont'd)

###### ■ List of Selected Future PBO Buildings in Klang Valley

| Year                             | Zone | Name of Building   | Total Net Lettable Area (sq. ft) |
|----------------------------------|------|--|----------------------------------|
| 2017                             | CKL  | Public Mutual Office Tower, JKG Tower, Bangunan Mas (Refurbishment)  | 857,000                          |
|                                  | MKL  | KL Gateway Tower 1 & 2, South-point @ Mid Valley City, KL Ecocity Corporate Tower 3, HCK Tower @ Empire City | 2,574,000                        |
| <b>Total 2017</b>                |      |  | <b>3,431,000</b>                 |
| 2018                             | CKL  | Menara Khuan Choo, Equatorial Plaza (Redevelopment), Sapura Corporate Headquarters                           | 875,000                          |
|                                  | GKL  | Menara Perdana   | 430,000                          |
| <b>Total 2018</b>                |      |  | <b>1,305,000</b>                 |
| 2019                             | CKL  | Menara Tun Razak (Redevelopment)*, Quill 15 @ Vision City, KL 118 (Formerly known as Warisan Merdeka)*       | 3,034,000                        |
|                                  | MKL  | Uptown 8   | 480,000                          |
| <b>Total 2019</b>                |      |  | <b>3,514,000</b>                 |
| <b>Grand Total (2017 - 2019)</b> |      |  | <b>8,250,000</b>                 |

Note: \* Possible delays in completion

Source: CBRE|WTW Research, December 2016

Nineteen (19) new developments with 8.250 million sq. ft are anticipated to enter the market by 2019. 3.431 million sq. ft or eight (8) new developments are expected to be completed by end of 2017. With the current soft market sentiment, developments that are meant to be completed by end 2017 may potentially be delayed, thereby result in a larger supply in 2018.

Only one (1) new supply of purpose-built office in Cyberjaya/Putrajaya subzone is expected to be completed within the next three (3) years, which is located in Putrajaya namely Menara Perdana MRCB with an estimated net lettable area of 430,000 sq. ft. There are also several upcoming office developments in Putrajaya, mainly for government use, as such, these buildings have been excluded from our supply number.

Demand for KV office space had primarily been driven by both local and foreign sectors. The trend for expansions from financial institutions, oil & gas companies and local government agencies were evident prior to the slump in the crude oil price in 3Q 2015.

Demand of office in KL highly depends on the country's economic situation which was proven during the 1998 economic slump as demand showed a significant decline, similarly during the 2008-2009 Global Financial Crisis and the crude oil price crisis during 2015. There was also a substantial amount of supply that came on stream between 2011 and 2012 amounting to 10.300 million sq. ft.

# THE MANAGER'S REPORT

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## Review of the market in which MQREIT invests in during the period and future prospects of the market (cont'd)

### 1 Purpose-Built Office ("PBO") Sector (cont'd)

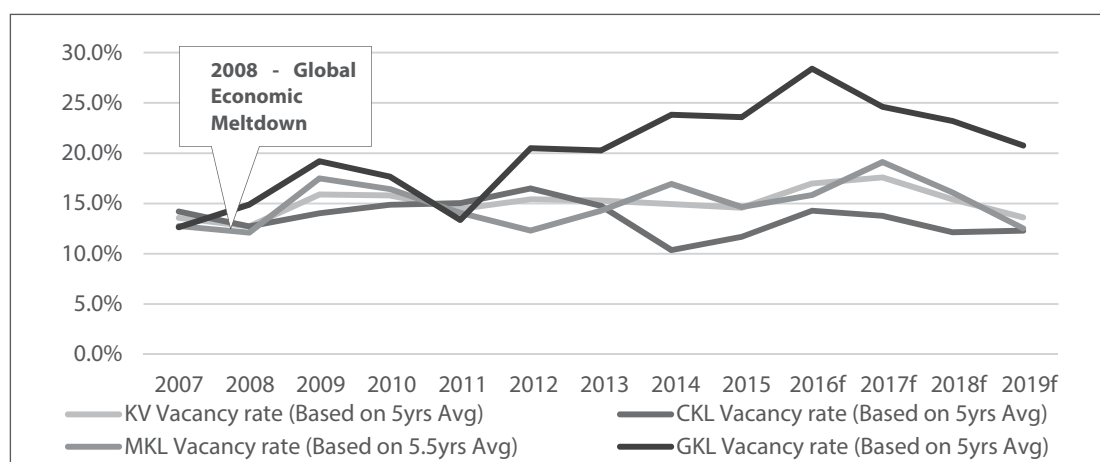
#### 1.2 Klang Valley (cont'd)

##### 1.2.1 Supply and Demand (cont'd)

Since the onset of the crude oil price crisis from mid-2015 onwards, most offices in the banking and oil & gas sectors have already undergone downsizing of their spatial requirements.

Nevertheless, the overall performance within GT area indicated the sector has been enjoying low vacancy rates for the last 3 years. This is attributed to favourable locational factors i.e. the premium "Kuala Lumpur" address, being centrally located and well connected by rail and road transport services.

#### ■ Vacancy Rate of PBO Buildings in KV (2007 to 2019f)



Abbreviation: f - forecast, yrs - years. Avg. - average

Source: CBRE|WTW Research, December 2016

The average occupancy rate in Klang Valley remain stable at 83.4% during the review period. In general, the occupancy rate in Cyberjaya is much better compared to Putrajaya as many office buildings in Cyberjaya are owner occupied coupled with the Multi-media Super Corridor (MSC) status for buildings located within Cyberjaya. In terms of occupancy rate, office space in Cyberjaya/Putrajaya, registered an occupancy rate of 65.1% as at 4Q2016 (Cyberjaya: 76.4%, Putrajaya: 53.8%), maintaining relatively the same occupancy rate reported in Q3 2016. In general, office buildings in Cyberjaya had been enjoying occupancy rates between 72.2% and 84.4% in the last 5 years whereas Putrajaya occupancy rates hovered between 53.8% and 69.8% over the same period.

Office developments within CKL and KL Sentral/Mid Valley locality have enjoyed favourable demand, largely due to the high concentration of office developments and supported by good public transportation.

Our survey of take-up rate within KV noted the average annual take-up for the last 5 years (2012 - 2016) was approximately 3.15 million sq. ft whilst during the review period i.e. Q4 2016, a net take-up of about 699,000 sq. ft was recorded which is lower by about 41.9% comparing the same quarter in 2015.

The slowdown is in tagged with the overall slowdown in the global market and the drop in crude oil and commodity prices since late 2015. However, Malaysia still ranked high at 23rd in doing business reported by World Bank Group.

# THE MANAGER'S REPORT

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## Review of the market in which MQREIT invests in during the period and future prospects of the market (cont'd)

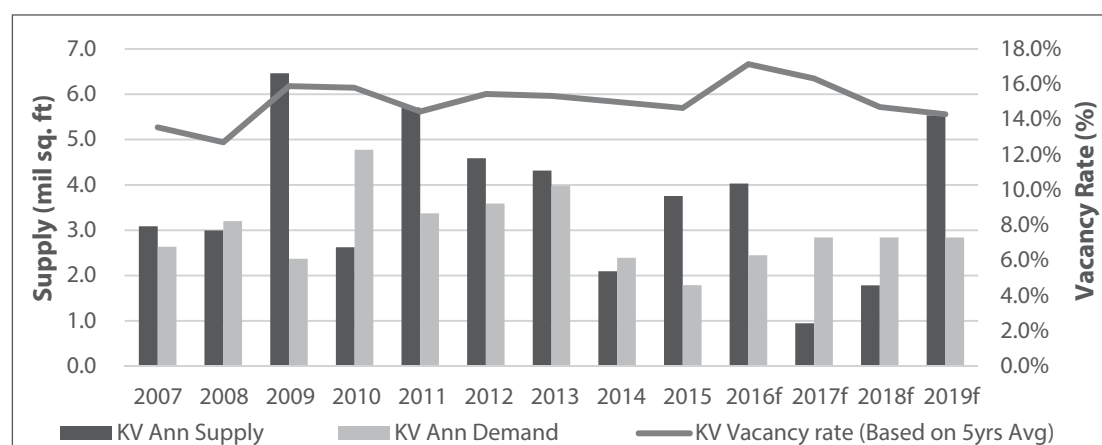
### 1 Purpose-Built Office ("PBO") Sector (cont'd)

#### 1.2 Klang Valley (cont'd)

##### 1.2.1 Supply and Demand (cont'd)

Given the supply of about 8.250 million sq. ft by end of 2019 and the assumption that take-up for the next 5 years about 2.860 million sq. ft per annum in KV, the overall vacancy rate in KV is anticipated to trend upwards hovering between 16% to 17% in the short term until 2017 before declining to about 14% in 2019.

##### ■ Supply, Take-up & Vacancy Rates of PBO Buildings in KV (2007 to 2019f)

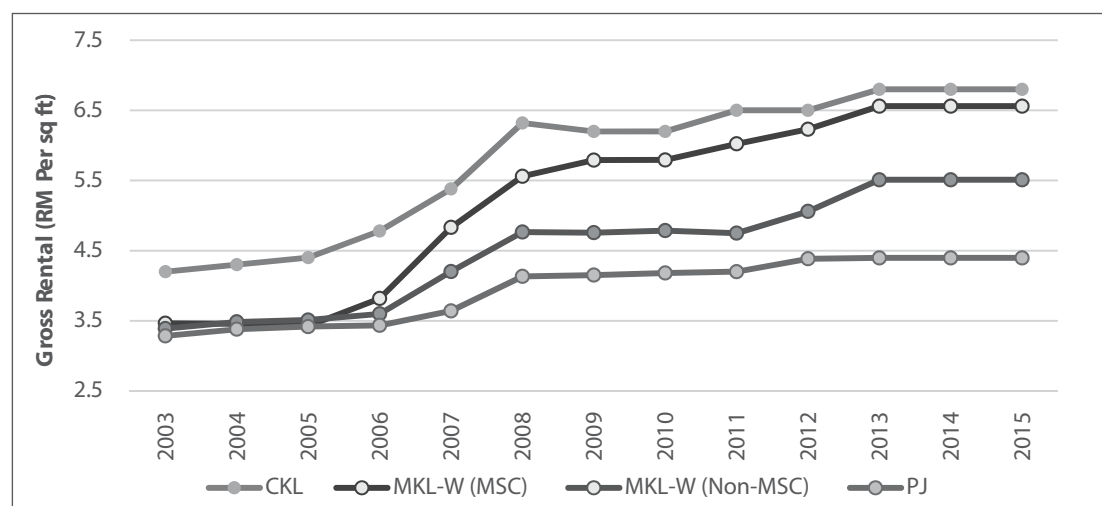


Note: The analysis takes into consideration only confirmed supply approved by the authority which has started constructions during the review period

Source: CBRE|WTW Research, December 2016

##### 1.2.2 Investment Activity

##### ■ Summary of Average Rental Growth in Selected Zone



Source: CBRE|WTW Research, December 2016



# THE MANAGER'S REPORT

cont'd

## Review of the market in which MQREIT invests in during the period and future prospects of the market (cont'd)

### 1 Purpose-Built Office ("PBO") Sector (cont'd)

#### 1.2 Klang Valley (cont'd)

##### 1.2.2 Investment Activity (cont'd)

The majority of asking rentals for prime office buildings in CKL and core business area in MKL, i.e. KL Sentral/ Mid Valley, Petaling Jaya/Bandar Utama, have improved since 2008 owing to the better quality office buildings which are mostly MSC compliant and/or have Green Building features.

Selected prime office buildings within CKL are currently offering monthly gross rents of around RM6.50-RM9.50 per sq. ft (excluding Petronas Twin Towers) whereas those in the MKL and GKL areas generally offer gross rents of between RM4.00-RM5.50 per sq. ft per month (with the exception of office space within KL Sentral and Bangsar South development, which generally offers RM6.50-RM8.50 per sq. ft per month for MSC status buildings). Service charges for prime office buildings are typically in the range of RM1.20-RM1.50 per sq. ft.

The following are summary of prices based on transactions of en-bloc office buildings, both completed and uncompleted ones. Yields of past transacted buildings in Cyberjaya as approved by the Securities Commission Malaysia (SC) as listed in the following table. Generally the yields have remained steady since 2006 at a rate of 6.5% to 7.1%.

#### ■ Selected Transactions and Yields of Office Buildings in The Last Two Years

| Month/<br>Year | Name of<br>Building      | Zone              | Seller   | Buyer  | Net Lettable<br>Area (sq. ft) | Sales Price<br>(RM'million) | Price<br>(RM/psf) | Yield (%)*  |
|----------------|--------------------------|-------------------|--|--|-------------------------------|-----------------------------|-------------------|-------------|
| Jan-15         | Tropicana<br>City Office | MKL-PJ            | Tropicana<br>City Sdn<br>Bhd   | Capitamalls<br>Malaysia Trust  | 101,246                       | 61.0                        | 602               | 6.03%       |
| March-15       | Nu Sentral               | CKL-<br>Secondary | MRCB<br>Sentral<br>Properties<br>(Malaysian<br>Resources<br>Corporation<br>Berhad) | Malaysian<br>Communication<br>and Multimedia<br>Commission<br>(MCMC) | 243,853                       | 283.0                       | 1,161             | -           |
| Apr-15         | Integra<br>Tower         | CKL- GT           | Blackrock<br>Inc   | Kumpulan Wang<br>Persaraan (KWAP)                                    | 760,715                       | 1,065.0                     | 1,400             | 6.4% - 7.5% |
| Jan-16         | Dijaya<br>Plaza          | CKL-<br>Secondary | Dijaya Plaza<br>Sdn Bhd<br>(subsidiary<br>Tropicana<br>Corporation<br>Bhd)         | Kenanga<br>Investment Sdn<br>Bhd                                     | 156,488                       | 140.0                       | 895               | -           |
| Jun-16         | Menara<br>Shell          | MKL-West          | 348 Sentral<br>Sdn Bhd<br>(Subsidiary<br>of MRCB)                                  | MQ Reits   | 557,053                       | 640.0                       | 1,149             | -           |
| Oct-16         | Capsquare<br>Tower       | CKL-<br>Secondary | Union<br>Investment<br>Real Estate<br>GMBH   | Kumpulan Wang<br>Persaraan (KWAP)                                    | 601,574                       | 511.0                       | 849               | 6.40%       |

Note: Yield is generated based on net rental

Source: CBRE|WTW Research, December 2016

# THE MANAGER'S REPORT

cont'd

## Review of the market in which MQREIT invests in during the period and future prospects of the market (cont'd)

### 1 Purpose-Built Office ("PBO") Sector (cont'd)

#### 1.2 Klang Valley (cont'd)

##### 1.2.3 Market Outlook

The sector is expected to continue to insipid during the review period as a result from the dreary global and domestic economic performance and lower commodity prices.

The PBO sector is expected to continue to be a challenging year with the slowdown in global economy and domestic economic trends. Weak demand for office space is expected to continue, affected by external and internal factors.

In tandem with the above, the PBO sector is expected to remain competitive in the short to medium term with some 8.250 million sq. ft of space to be completed by 2019, contributed by Tun Razak Exchange, Bukit Bintang City Centre (former Pudu Jail) and redevelopment of Kampung Baru. Pressures on occupancy rates are expected but no real growth is expected in the rental market.

The existing supply of office space in Cyberjaya/Putrajaya accounted for 9.01 million sq. ft in Q4 2016. Out of the total, 5.35 million sq. ft in Cyberjaya and 3.66 million sq. ft in Putrajaya. Only one (1) new supply of purpose-built office in Putrajaya is expected to be completed within the next three (3) years namely Menara Perdana MRCB with estimated net lettable area of 430,000 sq. ft.

### 2 Purpose-Built Retail (PBR) <sup>3</sup> Sector

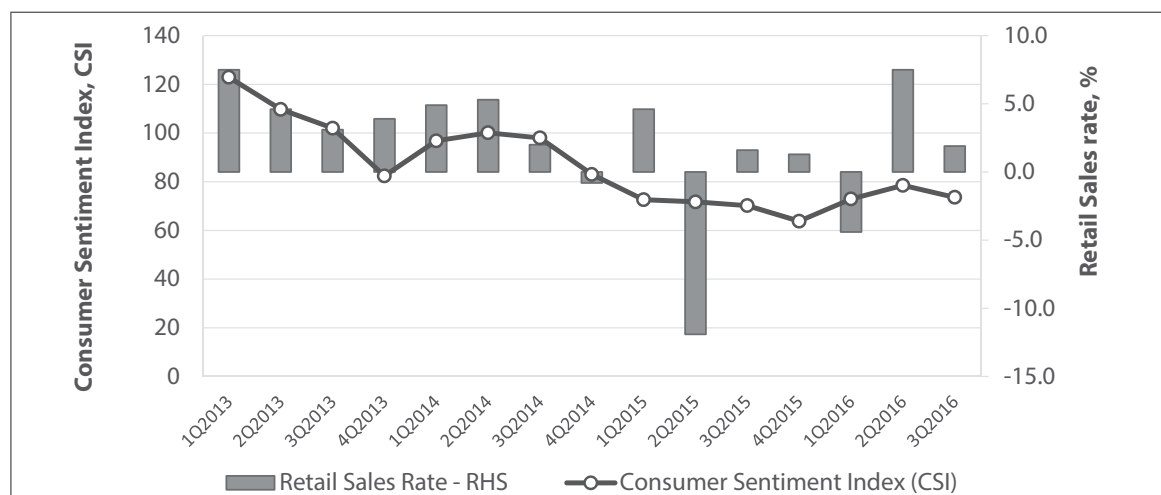
#### 2.1 General

The Klang Valley retail market has become more competitive in 2016 as a result of cautious retail spending. The Consumer Sentiment Index (CSI) fell for the ninth consecutive quarter below the 100-point threshold to 73.6 points in 3Q 2016 from 76 points in 2Q 2016.

The impending supply from incoming regional malls, namely MyTown Shopping Centre and Empire City Mall, will pose more challenges as 14.707 million sq. ft of new retail space is expected to be completed by end 2019. However, new retail malls located in prime shopping destinations are well positioned to attract new international retailers as they continue to embark on refreshing mall concept as crowd puller.

Notwithstanding, despite a lower retail sale rate of 3% is anticipated throughout 2016, retail market will remain cautiously optimistic as the weakening Ringgit Malaysia will continue to encourage tourists' spending from the increasing tourist arrivals.

#### ■ Summary of Consumer Sentiment Index (CSI) and Retail Sales Rate



Source: Malaysian Institute of Economic Research (MIER) and Malaysia Retailers Association (MRA), Q3 2016

# THE MANAGER'S REPORT

cont'd

## Review of the market in which MQREIT invests in during the period and future prospects of the market (cont'd)

### 2 Purpose-Built Retail (PBR) Sector (cont'd)

#### 2.1 General (cont'd)

- <sup>3</sup> A Purpose Built Retail (PBR) centre is defined as an enclosed, multi-levelled shopping area, marketed as a 'one-stop' shopping destination with a **defined trade area** that usually **draw a population catchment of domestic and/or internationally**. It offers a wide variety of discretionary merchandise from local and/or international retailers. CBRE-WTW Research has categorised this use into: (1) Mall/Mega Mall; (2) Neighbourhood (3) Hypermarket; (4) Destination Centre; each type has its own criteria in respect of the target market and products.

#### 2.2 Klang Valley

##### 2.2.1 Supply and Demand

###### *Summary of PBR Market Overview (as at Q4 2016)*

| Supply                           | Klang Valley | Zone         |                      |
|----------------------------------|--------------|--------------|----------------------|
|                                  |              | Kuala Lumpur | Outside Kuala Lumpur |
| Existing Supply (million sq. ft) | 55.088       | 30.093       | 24.995               |
| % of Share                       |              | 54.60%       | 45.40%               |
| Future Supply (million sq. ft)   | 14.707       | 8.998        | 5.709                |
| % of Share                       |              | 61.20%       | 38.80%               |
| Performance                      | Klang Valley | Zone         |                      |
|                                  |              | Kuala Lumpur | Outside Kuala Lumpur |
| Vacancy Rate                     | 13.50%       | 10.70%       | 16.80%               |

Source: CBRE|WTW Research, December 2016

Cumulative supply of retail space in Klang Valley is estimated at 55.088 million sq. ft as at 4Q 2016. There was a completion of 4.140 million sq. ft by 12 malls in 2016.

KL continues to dominate the KV retail market, representing 54.6% of the total KV supply. Being a shopping heaven and within Top 10 rankings in the World's Best Shopping Destinations, majority of the KL retail space are concentrated in the KLCC and Bukit Bintang shopping district.

Nevertheless, prime malls in major suburban locations in Mid Valley City, Petaling Jaya North and Sunway-Subang belt are still enjoying high occupancy rates of above 90%. These successful retail malls are integrated within township developments and well-connected via road networks and public transports such as KTM, LRT, MRT and BRT lines.

In the pipeline, a total of nineteen (19) new purpose-built retail centres and one (1) under renovation work, contributing approximately 14.707 million sq. ft. of retail space are expected to be completed in KV by the end of 2019. This will result in a cumulative supply of approximately 69.795 million sq. ft. of retail space within KV with the main focus continued to be in KL contributing 8.998 million sq. ft. (or 61.2% of total KV future supply) and Outside KL contributing 5.709 million sq. ft. (or 38.8% of total KV future supply).

The existing supply of retail space in study area, i.e. MKL-West stood at 4.812 million sq. ft during the review period, representing 16.0% of total supply in KL.

# THE MANAGER'S REPORT

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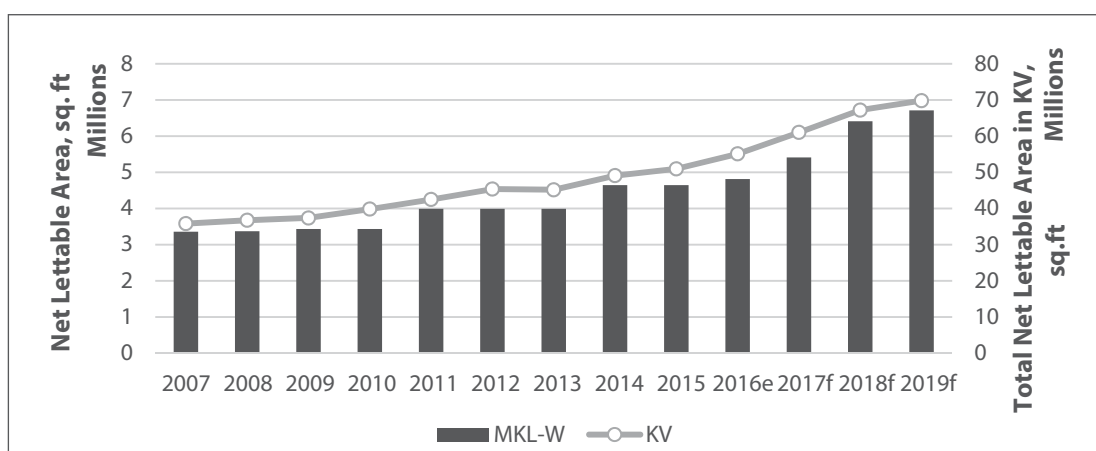
Review of the market in which MQREIT invests in during the period and future prospects of the market (cont'd)

## 2 Purpose-Built Retail (PBR) Sector (cont'd)

### 2.2 Klang Valley (cont'd)

#### 2.2.1 Supply and Demand (cont'd)

##### ■ Cumulative Supply of Purpose Built Retail in Klang Valley and MKL-W (2007 to 2019f)



Abbreviation: KV - Klang Valley, MKL-W - Metropolitan KL West; NLA - Net Lettable Area

Source: CBRE|WTW Research, December 2016

##### ■ List of Completed PBR Centres in Klang Valley

| Building Name                  | Location                   | Year of Completion | Type          | Estimated Net Lettable Area (sq. ft) |
|--------------------------------|----------------------------|--------------------|---------------|--------------------------------------|
| <b>Kuala Lumpur</b>            |                            |                    |               |                                      |
| M3 Mall                        | Taman Melati               | 1Q 2016            | Neighbourhood | 200,000                              |
| Giant Setapak                  | Danau Kota                 | 2Q 2016            | Hypermarket   | 88,000                               |
| Lulu Mall @ Jakel Square       | Dang Wangi                 | 2Q 2016            | Hypermarket   | 250,000                              |
| Damansara City Lifestyle Mall  | Damansara Heights          | 4Q 2016            | Neighbourhood | 169,000                              |
| Sunway Velocity Lifestyle Mall | Cheras KL                  | 4Q 2016            | Megamall      | 1,000,000                            |
| Pavilion Elite                 | Bukit Bintang              | 4Q 2016            | Megamall      | 258,000                              |
| <b>Subtotal (KL)</b>           |                            |                    |               | <b>1,965,000</b>                     |
| <b>Outside Kuala Lumpur</b>    |                            |                    |               |                                      |
| Da Men USJ                     | Subang Jaya                | 1Q 2016            | Neighbourhood | 421,000                              |
| AEON Shah Alam                 | Shah Alam                  | 1Q 2016            | Mall          | 700,000                              |
| D'Centrum                      | Cyberjaya                  | 1Q 2016            | Neighbourhood | 160,000                              |
| Glo Damansara                  | Taman Tun Dr Ismail (TTDI) | 2Q 2016            | Neighbourhood | 360,000                              |
| Sunway Pyramid Phase 3         | Bandar Sunway              | 2Q 2016            | Mall          | 88,000                               |
| Starling Damansara Uptown      | Damansara Utama            | 4Q 2016            | Neighbourhood | 450,000                              |
| <b>Subtotal (Outside KL)</b>   |                            |                    |               | <b>2,179,000</b>                     |
| <b>Total Klang Valley (KV)</b> |                            |                    |               | <b>4,144,000</b>                     |

Source: CBRE|WTW Research, December 2016

# THE MANAGER'S REPORT

cont'd

Review of the market in which MQREIT invests in during the period and future prospects of the market (cont'd)

## 2 Purpose-Built Retail (PBR) Sector (cont'd)

### 2.2 Klang Valley (cont'd)

#### 2.2.1 Supply and Demand (cont'd)

##### ■ Summary of Future Supply of PBR Centres in Klang Valley

| Zone                   | 2017             | 2018             | 2019             | Total (By zone)   |
|------------------------|------------------|------------------|------------------|-------------------|
| KL                     | 3,026,000        | 4,372,000        | 1,600,000        | 8,998,000         |
| Outside KL             | 2,907,000        | 1,802,000        | 1,000,000        | 5,709,000         |
| <b>Total KV Supply</b> | <b>5,933,000</b> | <b>6,174,000</b> | <b>2,600,000</b> | <b>14,707,000</b> |

Source: CBRE|WTW Research, December 2016

##### ■ Selected Notable Future Supply of PBR Centres

| Year                                     | Name of Retail Centre                | Estimated Net Lettable Area* (sq. ft) |
|--|--------------------------------------|---------------------------------------|
| <b>Kuala Lumpur</b>                      |                                      |                                       |
| 2017                                     | Shaw Parade                          | 156,000                               |
|  | KL Gateway                           | 400,000                               |
|  | Melawati Mall                        | 620,000                               |
|  | MyTown Shopping Centre               | 1,100,000                             |
|  | Selayang Star City Mall              | 550,000                               |
|  | KL Ecocity Retail                    | 200,000                               |
| <b>Subtotal KL (2017)</b>                |                                      | <b>3,026,000</b>                      |
| 2018                                     | Pavilion Bukit Jalil                 | 1,930,000                             |
|  | Pavilion Damansara Heights           | 1,000,000                             |
|  | Eko Cheras Mall                      | 625,000                               |
|  | Other 3 malls in KL city centre      | 817,000                               |
| <b>Subtotal KL (2018)</b>                |                                      | <b>4,372,000</b>                      |
| 2019                                     | Tun Razak Exchange Lifestyle Quarter | 1,300,000                             |
|  | Kiara 163 Lifestyle Mall             | 300,000                               |
| <b>Subtotal KL (2019)</b>                |                                      | <b>1,600,000</b>                      |
| <b>Subtotal KL (2017 - 2019)</b>         |                                      | <b>8,998,000</b>                      |
| <b>Outside KL</b>                        |                                      |                                       |
| 2017                                     | Empire City Damansara                | 2,500,000                             |
|  | Amerin Mall, Balakong                | 156,000                               |
|  | Evo Shopping Centre, Bangi           | 251,000                               |
| <b>Subtotal OKL (2017)</b>               |                                      | <b>2,907,000</b>                      |
| 2018                                     | Central Plaza @ i-City               | 802,000                               |
|  | Tropicana Garden Mall                | 1,000,000                             |
| <b>Subtotal OKL (2018)</b>               |                                      | <b>1,802,000</b>                      |
| 2019                                     | Empire Remix @ USJ 1                 | 1,000,000                             |
| <b>Subtotal OKL (2019)</b>               |                                      | <b>1,000,000</b>                      |
| <b>Subtotal Outside KL (2017 - 2019)</b> |                                      | <b>5,709,000</b>                      |
| <b>Total Klang Valley (2017 - 2019)</b>  |                                      | <b>14,707,000</b>                     |

Source: CBRE|WTW Research, December 2016



# THE MANAGER'S REPORT

cont'd

## Review of the market in which MQREIT invests in during the period and future prospects of the market (cont'd)

### 2 Purpose-Built Retail (PBR) Sector (cont'd)

#### 2.2 Klang Valley (cont'd)

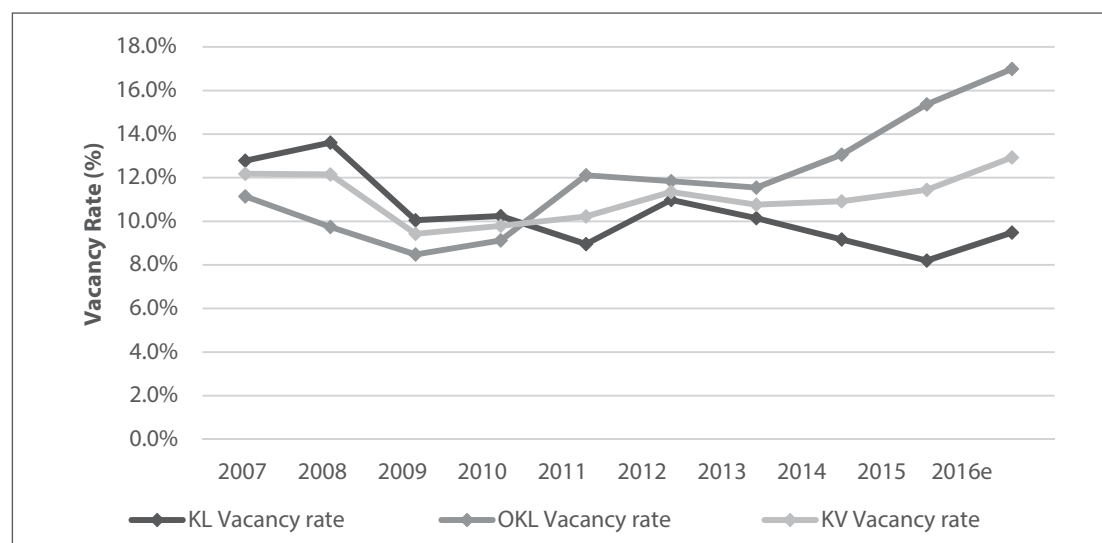
##### 2.2.1 Supply and Demand (cont'd)

The average occupancy rate of purpose-built retail centres in KV was 85.86% as at Q4 2016, a marginal decrease of 2.0% from the previous quarter with a total 12 malls opening in 2016. Active pre-leasing activities had resulted in most newly opened retail centres in strategic location and neighbourhood achieving good occupancy rates between 70% and 80% upon opening.

Retail centres located within Kuala Lumpur continued to outperform those malls located outside Kuala Lumpur, with an average occupancy rate of 91% and 83% respectively. Notable malls in Klang Valley which are owned and managed by Real Estate Investment Trusts (REITs) have generally performed better, above 90% occupancy rates with good mixture of retailing activities.

The shopping malls located in city fringe, namely Mont'Kiara, Sri Hartamas, Bangsar et cetera remain sought-after with appealing tenant mix mainly in food and beverage, catering to affluent urbanites in the localities.

#### ■ Vacancy Rate of Purpose-built Retail Centre in Klang Valley



Abbreviation : KL - Kuala Lumpur, OKL - Outside Kuala Lumpur, KV - Klang Valley

Source: CBRE|WTW Research, December 2016

In terms of take-up rate in KV, our observation for the past 5 years (2012 - 2016) has shown consistent strong take-up, averaging 1.924 million sq. ft per annum. An exception was in year 2013 which recorded a lower take-up of about 452,500 sq. ft only as a result of the closure of some retail centres 720,000 sq. ft. i.e. PIKOM ICT Mall (now known as Jakel Mall) and Sunway Putra Mall in Central KL to make way for retrofitting works.

The take-up of retail space in KL over the last 5 years (2012 - 2016) remained resilient at average 0.750 million sq. ft. per annum. During 2014 - 2016, retail market observed active retail mall developments as part of integrated development with significant net take up at 1.136 and 1.535 million sq. ft.

Retail malls outside KL have shown higher take-up, averaging at 1.173 million sq. ft. in the last 5 years (2012 - 2016) as a result of the openings of major malls such as IOI City Mall and Paradigm Mall.

Moving forward, vacancy rate of retail centres in KL will remain stable around 12% to 16% in coming years with the new retail space of 8.998 million sq. ft, continue to garner support from active pre-leasing activities and growing footprint of international retailers in KL retail market.

# THE MANAGER'S REPORT

cont'd

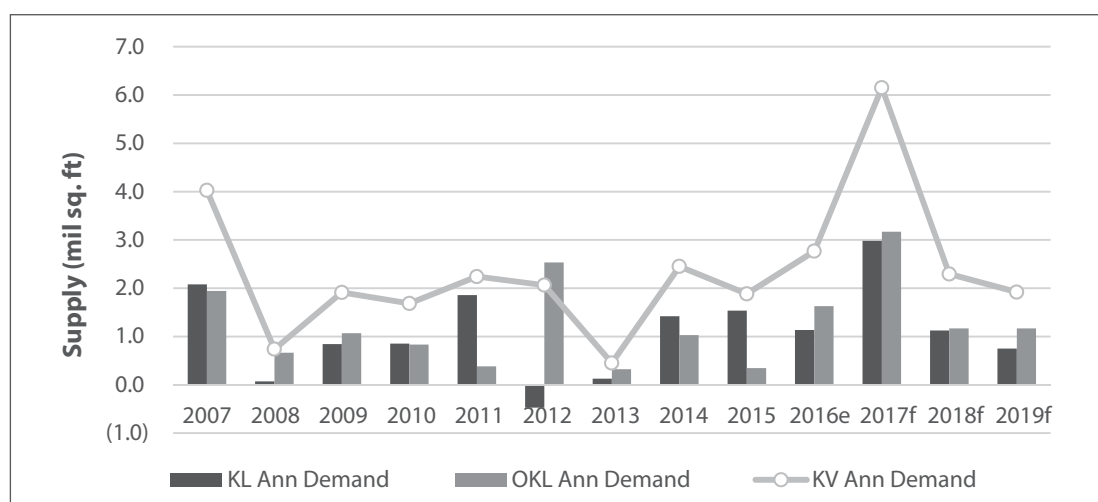
Review of the market in which MQREIT invests in during the period and future prospects of the market (cont'd)

## 2 Purpose-Built Retail (PBR) Sector (cont'd)

### 2.2 Klang Valley (cont'd)

#### 2.2.1 Supply and Demand (cont'd)

##### ■ Take-up of Retail Space in Purpose-built Retail Centres KL vis-à-vis Outer KL vis-à-vis KV (2007-2019)



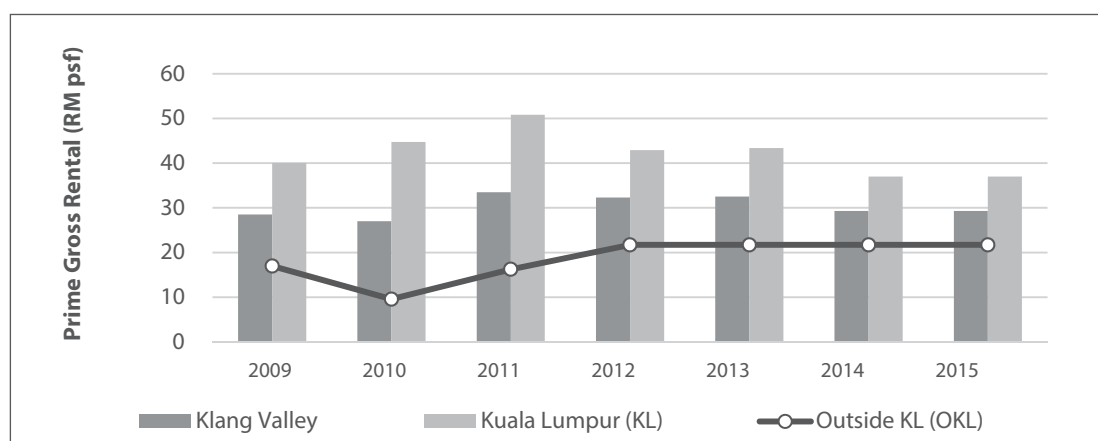
Abbreviation: KV - Klang Valley, KL - Kuala Lumpur, OKL - Outside KL, Ann. - Annual

Source: CBRE|WTW Research, December 2016

#### 2.2.2 Investment Activity

Prime retail rentals in KV are expected to remain stable. According to NAPIC, average gross rental for ground floor of the selected prime retail centres in KV are at about RM29 per sq. ft; KL retail centres, in general, commanded higher rental rate at about RM37 per sq. ft whilst prime retail centres located outside KL commanded a lower rental rate at about RM22 per sq. ft.

##### ■ Prime Gross Rental in Klang Valley



Abbreviation: KV - Klang Valley, KL - Kuala Lumpur, OKL - Outside KL

Source: NAPIC Property Market Report, 2009-2014, CBRE|WTW Research, December 2016

# THE MANAGER'S REPORT

cont'd

## Review of the market in which MQREIT invests in during the period and future prospects of the market (cont'd)

### 2 Purpose-Built Retail (PBR) Sector (cont'd)

#### 2.2 Klang Valley (cont'd)

##### 2.2.2 Investment Activity (cont'd)

In the past two (2) years, there were three (3) notable transactions involved retail centres; these were acquired by Real Estate Investment Trusts (REITs). Pavilion REIT acquired two (2) retail centres in 2015, i.e. DA MEN USJ in Subang Jaya and The Intermark Mall in Kuala Lumpur city centre, whilst CapitaMalls Malaysia Trust (CMMT) purchased Tropicana City Mall and Office in Petaling Jaya.

##### ■ Retail Centre Transactions in Klang Valley in 2015

| Retail Centre                 | Vendor   | Purchaser                  | Estimated Net Lettable Area (sq. ft) | Purchase Consideration (RM) |
|-------------------------------|--|----------------------------|--------------------------------------|-----------------------------|
| The Intermark Mall            | The Intermark Sdn Bhd  | Pavilion REIT              | 225,014                              | 160,000,000                 |
| DA MEN USJ                    | Equine Park Country Resort Sdn Bhd & Revenue Concept Sdn Bhd | Pavilion REIT              | 420,920                              | 488,000,000                 |
| Tropicana City Mall & Offices | Tropicana City Sdn Bhd                                       | CapitaMalls Malaysia Trust | 639,447                              | 540,000,000                 |

Source: Bursa Announcement, CBRE|WTW Research, December 2016

##### 2.2.3 Market Outlook

A mixed outlook in both global and local economy might cut consumer spending, which may later affect shoppers' traffic and retail sales of those retail malls in less strategic locations.

However, those established retail centres with strong tenant mix, coupled with good location and good connectivity to major roads and highways will continue to take lead and enjoy high occupancies with potential catchment market.

Existing malls located in Seputeh, Sri Hartamas, Mont Kiara and Bangsar include 8 malls and 3 mega malls with a total net lettable area of 4.812 million sq. ft. These malls are well located with good accessibility and cater to high end neighbourhoods with majority affluent urbanites and expatriate families. By 2019, there will be another 4 malls with 1.9 million sq. ft coming on stream.

# THE MANAGER'S REPORT

cont'd

Review of the market in which MQREIT invests in during the period and future prospects of the market (cont'd)

## 2 Purpose-Built Retail (PBR) Sector (cont'd)

### 2.3 PENANG<sup>4</sup>

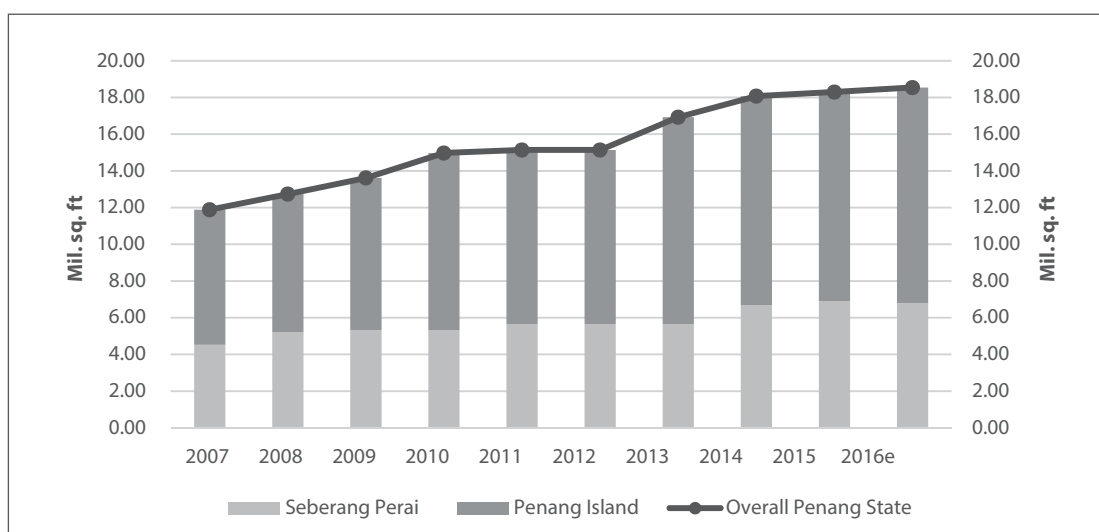
#### 2.3.1 Supply and Demand

##### ■ Existing Supply and Occupancy Rate

| Supply                           | Penang State  | Location      |                |
|----------------------------------|---------------|---------------|----------------|
|                                  |               | Penang Island | Seberang Perai |
| Existing Supply (million sq. ft) | 18.537 sq. ft | 11.742 sq. ft | 6.795 sq. ft   |
| Share (%)                        |               | 63%           | 37%            |
| Occupancy Rate                   | 74%           | 83%           | 60%            |

Source: CBRE|WTW Research, December 2016

##### ■ Trend of existing supply of PBR sector in Penang



Source: NAPIC, CBRE|WTW Research, December 2016

The overall occupancy rate of PBR centres in Penang was relatively stable, which was in the region of 69% to 72% in the past 5 years. Retail malls on Penang Island continued to outperform those in Seberang Perai, of which the former registered average occupancy rate of about 80% whilst the latter at about 60%. The high occupancy of the island, is attributed to the rather good retail sales mainly from the relatively large working population as well as tourists.

<sup>4</sup> In general, Penang state is categorized into two (2) main areas, i.e. Penang Island and Seberang Perai.

# THE MANAGER'S REPORT

cont'd

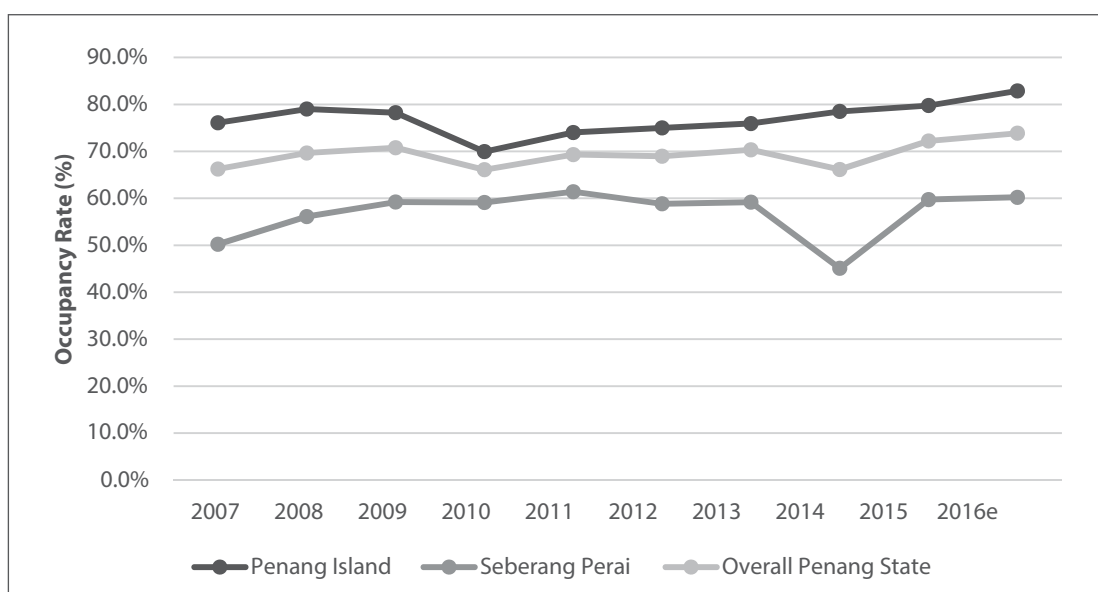
Review of the market in which MQREIT invests in during the period and future prospects of the market (cont'd)

## 2 Purpose-Built Retail (PBR) Sector (cont'd)

### 2.3 PENANG (cont'd)

#### 2.3.1 Supply and Demand (cont'd)

##### ■ Overall Occupancy Rate of PBR Sector in Penang



Source: NAPIC, CBRE|WTW Research, December 2016

Penang saw a total of approximately 885,000 sq. ft of retail space newly completed in 2016. There were three (3) new retail malls opened to public with one mall (40%) located on Penang Island and other 2 malls (60%) located in Seberang Perai. On the other hand, Perda City Mall of net lettable 790,000 sq. ft located in Seberang Perai, ceased its operation in August 2016.

##### ■ Newly Opened PBR Centres in Penang in 2016

| Location       | Name  | Estimated Net Lettable Area (sq. ft) |
|----------------|---|--------------------------------------|
| Penang Island  | M Mall O2O @ Penang Times Square (Georgetown) | 355,000                              |
| Seberang Perai | Pearl City Mall (Simpang Ampat)               | 130,000                              |
|                | Penang Design Village (Batu Kawan)            | 400,000                              |

Source: CBRE|WTW Research, December 2016

In terms of future supply, there are notable upcoming and planned retail malls, which are expected to be completed within the next five years.



# THE MANAGER'S REPORT

cont'd

## Review of the market in which MQREIT invests in during the period and future prospects of the market (cont'd)

### 2 Purpose-Built Retail (PBR) Sector (cont'd)

#### 2.3 PENANG (cont'd)

##### 2.3.1 Supply and Demand (cont'd)

###### ■ Notable Upcoming PBR Centres in Penang

| Location       | Name of Retail Centre            | Estimated Net Lettable Area (sq. ft) |
|----------------|----------------------------------|--------------------------------------|
| Penang Island  | Penang Times Square Phase 3      | 230,000                              |
|                | City Mall Bayan City             | 300,000                              |
|                | Penang World City                | 1,000,000                            |
|                | Retail Mall @ Sunshine Tower     | N/A                                  |
|                | The Light Waterfront Mall        | 1,000,000                            |
| Seberang Perai | Ikea @ Batu Kawan                | N/A                                  |
|                | Ikano Power Centre @ Batu Kawan  | N/A                                  |
|                | Mall by Belleview Group at Perai | 1,500,000                            |

Source: CBRE|WTW Research, December 2016

##### 2.3.2 Investment Activity

Gross rentals for the ground floor of selected prime retail malls in Penang Island commanded the higher rental rates compared to those in Seberang Perai, of up to RM22 per sq. ft per month.

With regards to en-bloc transaction of retail mall, a recent transaction was recorded in April 2015. Mydin Wholesale Hypermarket was transacted during its advance stage of construction. AmFIRST Real Estate Investment Trust entered into a Sale Purchase Agreement to purchase the property from Mydin Wholesale Cash and Carry Sdn Bhd. The transacted price was RM250 million, analysed at approximately RM466 per square foot on the net lettable area. The transaction was a sale-and-leaseback arrangement, as the property would be leased to Mydin Mohamad Holdings Berhad for tenure of 30 years with a 10% rent increment every 5 years.

##### 2.3.3 Market Outlook

In the next three to five years, more retail space of approximately 5 million sq ft, is expected to come on stream. Such a situation would render an exciting experience for shoppers but competition would be keener among retailers and property owners of retail space. Nonetheless, retail malls with strong tenant mix and situated within strategic locations, and with large and ready catchment population, will continue to thrive. On the other hand, aged retail malls are likely to see a dip of occupancy where tenants may seek for relocation upon expiration of tenancy in view of the declining shoppers' traffic and deteriorating building conditions.

# THE MANAGER'S REPORT

cont'd

## Income distribution

In line with the Trust Deed, MQREIT intends to distribute at least 90% (or any other higher percentage at the discretion of the Manager) of its distributable income at least semi-annually, or at such other intervals as the Manager may determine.

During the year, income distribution of 4.23 sen per unit being the distribution of income for the period of 1 January 2016 to 30 June 2016 were paid on 8 September 2016; and a special gross distribution of 4.15 sen per unit relating to the distribution of income for the period of 1 July 2016 to 16 December 2016, were paid on 13 January 2017 to all unitholders as at book closure date on 16 December 2016.

The total distribution declared is 8.38 sen per unit, totalling RM55,423,728 representing approximately 93.7% of the net realised income for the financial year ended 31 December 2016. The details of the total distribution for the financial year ended 31 December 2016 are disclosed in Note 13 to the financial statements.

Income distributed to resident individuals, non-resident individuals, resident institutional investors, non-resident institutional investors and non-resident companies are subject to withholding tax.

The applicable tax rates for income distribution payable in year 2016 are as follows:

|   |     |
|---|-----|
| Resident and non-resident individuals             | 10% |
| Resident and non-resident institutional investors | 10% |
| Resident companies (flow through)                 | 0%  |
| Non-resident companies                            | 24% |

|                                  | Before<br>special income<br>distribution<br>RM | After<br>special income<br>distribution<br>RM |
|----------------------------------|--|---|
| Net asset value ("NAV") per unit | 1.2988   | 1.2731  |

The directors of the Manager do not recommend any payment of final income distribution in respect of the current financial year.

## Breakdown of unitholdings as at 31 December 2016

| Unit class                                    | Number of<br>unitholders | Number of<br>unitholdings | Percentage of<br>unitholdings<br>(%) |
|---|--------------------------|---------------------------|--------------------------------------|
| Less than 100                                 | 51                       | 960                       | 0.00                                 |
| 100 to 1,000                                  | 701                      | 521,840                   | 0.05                                 |
| 1,001 to 10,000                               | 2,193                    | 12,132,600                | 1.14                                 |
| 10,001 to 100,000                             | 1,306                    | 46,641,200                | 4.37                                 |
| 100,001 to less than 5% of approved fund size | 325                      | 518,986,400               | 48.59                                |
| 5% and above of approved fund size            | 4                        | 489,717,000               | 45.85                                |
|   | 4,580                    | 1,068,000,000             | 100.00                               |

## Reserves and provisions

There were no material transfers to and from reserves or provisions during the financial year other than as disclosed in the statement of changes in NAV.

# THE MANAGER'S REPORT

cont'd

## Directors

The names of the directors of the Manager in office since the date of last report and at the date of this report are:

Tan Sri Saw Choo Boon  
 Dato' Dr. Low Moi Ing, J.P.  
 Dato' Michael Ong Leng Chun  
 Kwan Joon Hoe  
 Ann Wan Tee  
 Foong Soo Hah  
 Dr. Roslan Bin A. Ghaffar  
 Dato' Thanarajasingam Subramaniam  
 Aminuddin Bin Mohd Arif (appointed on 1 April 2016)  
 Datuk Dr Mohamed Arif bin Nun (resigned on 1 April 2016)

## Directors' benefit

Neither at the end of the financial year, nor at any time during that year, did there subsist any arrangement to which the Manager was a party, whereby the directors of the Manager might acquire benefits by means of the acquisition of units in or debentures of MQREIT or any other body corporate.

Since the end of the previous financial year, no director of the Manager has received or become entitled to receive a benefit by reason of a contract made by MQREIT or a related corporation with any director of the Manager or with a firm of which the director is a member, or with a company in which the director has a substantial financial interest, except for units held in MQREIT as disclosed in Note 28 to the financial statements and the related party transactions as disclosed in Note 31 to the financial statements.

## Directors' interests

|                                 | Units as at<br>1 January<br>2016 | Number of<br>units<br>acquired/<br>(disposed) | Units as at<br>31 December<br>2016 |
|---------------------------------|----------------------------------|---|------------------------------------|
| <b>Direct interest:</b>         |                                  |   |                                    |
| Dato' Dr. Low Moi Ing, J.P.     | 50,000                           | -   | 50,000                             |
| Dato' Michael Ong Leng Chun     | 55,000                           | -   | 55,000                             |
| Datuk Dr. Mohamed Arif bin Nun  | 10,000                           | -   | —*                                 |
| <b>Indirect interest:</b>       |                                  |   |                                    |
| Dato' Dr. Low Moi Ing, J.P. (a) | 117,040,000                      | -   | 117,040,000                        |
| Dato' Michael Ong Leng Chun (b) | 117,040,000                      | -   | 117,040,000                        |

(a) Deemed interest by virtue of her direct shareholding in Quill Properties Sdn. Bhd. ("QPSB"), Quill Land Sdn. Bhd. ("QLSB") and Quill Estates Sdn. Bhd. ("QESB").

(b) Deemed interest by virtue of his direct shareholding in QPSB, QLSB and QESB.

\* As announced on 1 April 2016, Datuk Dr. Mohamed Arif bin Nun has resigned as Independent and Non-Executive Director to pursue other interest.

Except for the direct and indirect directors' interests disclosed above, none of the other directors of the Manager in office at the end of the financial year had any interest in MQREIT.

# THE MANAGER'S REPORT

cont'd

## Issuance of new units

Private placement of 406,619,000 new units ("Placement Units") at the bookbuilding exercise of RM1.20 per unit, with the gross proceeds of RM487,942,800 were done as part of the purchase consideration for the acquisition of Menara Shell. The Placement Units were listed and quoted on the Main Market on Bursa Securities on 22 December 2016. With the listing of the Placement Units, the enlarged Units in circulation is 1,068,000,000 units.

## Utilisation of proceeds raised from issuance of new units

The proceeds from the issuance of new units are used partly to finance the acquisition of Menara Shell on 22 December 2016.

## Particulars of all sanctions and/or penalties imposed on MQREIT, directors of the management company or the management company by the relevant regulatory bodies

During the financial year ended 31 December 2016, there were no sanctions and/or penalties imposed on MQREIT, its Manager and/or directors of its Manager by any of the relevant regulatory bodies.

## Amount of non-audit fees incurred for services rendered to MQREIT by its auditors, or a firm of company affiliated to the auditors' firm

During the financial year ended 31 December 2016, there were non-audit fee of RM100,000 and RM5,000 for the auditors' role as reporting accountant in relation to the acquisition of Menara Shell and for the review of Statement of Risk Management and Internal Control services rendered respectively; and the tax agent fee of RM21,200 for the services rendered by Ernst & Young Tax Consultants Sdn. Bhd.

## Particulars of material contracts of MQREIT involving the management company and/or major unitholders' interests

Details of material contracts with related parties other than manager's fees to the Manager are as follows (refer to Note 31 to the financial statements):

- (i) Renewed tenancy agreement of the premises known as Unit G02-G04, Ground Floor at Platinum Sentral to Prema Bonanza Sdn Bhd ("PBSB") for a term of one (1) year with an option to renew for a further term of one (1) year. The total rental received for the financial year ended 31 December 2016 amounted to RM795,728.

PBSB was incorporated in Malaysia under the Companies Act, 1965 on 11 December 2006 and its principal activity is property development.

PBSB is a 51% subsidiary of Malaysian Resources Corporation Berhad ("MRCB"), which is a major unitholder of MQREIT and a major shareholder of the Manager. The balance 49% shareholding in PBSB is held by Quill Residences Sdn. Bhd. ("QRSB"), a member of the Quill Group, which is also related to MQREIT's major unitholders namely QPSB, QLSB, QESB as well as Quill Resources Holding Sdn. Bhd. ("QRHSB") which is a major shareholder of the Manager.

- (ii) Car park operation agreement with Semasa Parking Sdn. Bhd. ("SPSB") to appoint SPSB as the sole car park operator vested with car park operations rights including occupying, managing and operating car park charges in respect of car parking bays located at Platinum Sentral. The total amount received for the financial year ended 31 December 2016 amounted to RM2,002,304.

As announced on 9 December 2016, MQREIT had renewed the appointment of SPSB as the car park operator for Platinum Sentral for a period of 2 years commencing from 1 January 2017 to 31 December 2018, at a monthly minimum guaranteed rental of RM150,000 with a profit sharing basis in the proportion of 80% (MQREIT): 20% (SPSB) ratio.

SPSB was incorporated in Malaysia under the Companies Act, 1965 on 6 August 1997 and its principal activity is operation and management of car parks and parking area.

SPSB is a wholly-owned subsidiary of MRCB, which in turn is a major unitholder of MQREIT and also a major shareholder of MQM.

# THE MANAGER'S REPORT

cont'd

## Particulars of material contracts of MQREIT involving the management company and/or major unitholders' interests (cont'd)

Details of material contracts with related parties other than manager's fees to the Manager are as follows (refer to Note 31 to the financial statements): (cont'd)

- (iii) As announced on 22 December 2016, a letter of award has been issued to Semasa Parking Sdn Bhd ("SPSB") for the provision of car park operation at Menara Shell for a period of no more than 6 months; at a minimum guarantee rental of RM155,000 per month.

The total amount received for the financial year ended 31 December 2016 is RM50,000.

SPSB is a wholly-owned subsidiary of MRCB.

- (iv) Auxiliary police services with Semasa Sentral Sdn. Bhd. ("SSSB") for deployment of auxiliary police personnel at Platinum Sentral, from January 2016 up to December 2016, amounted to RM570,960.

As announced on 22 December 2016, a letter of award has been issued to Semasa Sentral Sdn Bhd ("SSSB") for the provision of auxiliary police services at Menara Shell at a fee of RM71,844 per month, for a period no more than 6 months. The total amount incurred for the financial year ended 31 December 2016 is RM23,175.

SSSB was incorporated in Malaysia under the Companies Act, 1965 on 4 May 1982 and its principal activity is maintaining, operating and management of the Kuala Lumpur Sentral Station and any other buildings within the vicinity of Kuala Lumpur Sentral.

SSSB is a wholly-owned subsidiary of MRCB.

- (v) Supply of chilled water by Semasa District Cooling Sdn. Bhd. ("SDCSB") for installation, maintenance and meter reading for Platinum Sentral. The year to date charges for the financial year ended 31 December 2016 amounted to RM3,080,606.

SDCSB is a wholly-owned subsidiary of MRCB.

- (vi) Lease agreement with Malaysian Resources Sentral Sdn. Bhd. ("MRSSB") on encroachment on 2 pieces of land located on Platinum Sentral, measuring total NLA of 156,959 sq. ft., amounted to RM67,078.

MRSSB is a wholly-owned subsidiary of MRCB.

- (vii) Acquisition of Menara Shell from 348 Sentral Sdn. Bhd., a wholly-owned subsidiary of MRCB at the purchase consideration of RM640 million, satisfied entirely in cash.

- (viii) Final claim of toilet refurbishment works for QB2 of RM107,910 to Accord Construction Sdn. Bhd. ("ACSB") for the financial year ended 31 December 2016.

ACSB is related to Quill Group, and owned by two of the directors of MQREIT's Manager, namely Dato' Dr. Low Moi Ing, J.P. and Dato' Michael Ong Leng Chun.

## Changes in material litigations

The Manager is not aware of any pending material litigations since the date of the last report and at the date of this report.

## Manager's responsibility for the annual audited accounts

The Manager is responsible for the preparation of the annual audited financial statements of MQREIT.



# THE MANAGER'S REPORT

cont'd

## Other statutory information

- (a) Before the statement of comprehensive income and statement of financial position of MQREIT were made out, the directors of the Manager took reasonable steps:
  - (i) to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of allowance for doubtful debts of receivables and satisfied themselves that there were no known bad debts and that adequate allowance had been made for doubtful debts; and
  - (ii) to ensure that any current assets which were unlikely to realise their values as shown in the accounting records in the ordinary course of business had been written down to an amount which they might be expected so to realise.
- (b) At the date of this report, the directors of the Manager are not aware of any circumstances which would render:
  - (i) it necessary to write off any bad debts or the amount of the allowance for doubtful debts in the financial statements of MQREIT inadequate to any substantial extent; and
  - (ii) the values attributed to the current assets in the financial statements of MQREIT misleading.
- (c) At the date of this report, the directors of the Manager are not aware of any circumstances which have arisen which would render adherence to the existing method of valuation of assets or liabilities of MQREIT misleading or inappropriate.
- (d) At the date of this report, the directors of the Manager are not aware of any circumstances not otherwise dealt with in this report or financial statements of MQREIT which would render any amount stated in the financial statements misleading.
- (e) At the date of this report, the directors of the Manager are not aware of any circumstances not otherwise dealt with in this report or financial statements of MQREIT which would materially affect the interests of the unitholders.
- (f) At the date of this report, there does not exist:
  - (i) any charge on the assets of MQREIT which has arisen since the end of the financial year which secures the liabilities of any other person; or
  - (ii) any contingent liability of MQREIT which has arisen since the end of the financial year.
- (g) In the opinion of the directors of the Manager:
  - (i) no contingent or other liability has become enforceable or is likely to become enforceable within the period of twelve months after the end of the financial year which will or may affect the ability of MQREIT to meet its obligations as and when they fall due; and
  - (ii) no item, transaction or event of a material and unusual nature has arisen in the interval between the end of the financial year and the date of this report which is likely to affect substantially the results of the operations of MQREIT for the financial year in which this report is made.

## Other significant events

- (a) **Proposed Acquisition; Proposed Placement; Proposed Placement to Malaysian Resources Corporation Berhad; Proposed Placement to Employees Provident Fund Board; Proposed Authority; and Proposed Increase in Fund Size (collectively referred to as the "Proposals")**

Further to the announcements dated 3 December 2015, 3 March 2016 and 12 April 2016, CIMB Investment Bank Berhad ("CIMB"), Hong Leong Investment Bank Berhad ("HLIB") and Maybank Investment Bank Berhad ("Maybank IB"), on behalf of the Board of Directors of MRCB Quill Management Sdn. Bhd. ("Manager" or "Board"), announced that the Trustee, acting solely in the capacity as Trustee for and on behalf of MQREIT, had on 30 June 2016 entered into a conditional Sale and Purchase Agreement ("SPA") with 348 Sentral Sdn. Bhd., a wholly-owned subsidiary of Malaysian Resources Corporation Berhad ("MRCB"), for the proposed acquisition of Menara Shell together with a 5-storey podium and a 4-storey basement car park, for a purchase consideration of RM640,000,000 to be satisfied entirely in cash ("Proposed Acquisition").

# THE MANAGER'S REPORT

cont'd

## Other significant events (cont'd)

### (a) **Proposed Acquisition; Proposed Placement; Proposed Placement to Malaysian Resources Corporation Berhad; Proposed Placement to Employees Provident Fund Board; Proposed Authority; and Proposed Increase in Fund Size (collectively referred to as the "Proposals") (cont'd)**

In conjunction with the Proposed Acquisition, the Board also proposes to undertake the following:

- (i) Proposed placement of up to 406,666,667 new units in MQREIT ("Units" or "Placement Units") by way of bookbuilding at an issue price to be determined later ("Proposed Placement");
- (ii) Proposed placement to MRCB for an amount of no less than RM110,000,000 but up to RM152,000,000 of Placement Units at an issue price to be determined later, pursuant to the Proposed Placement ("Proposed Placement to MRCB");
- (iii) Proposed placement to Employees Provident Fund Board ("EPF") of up to 7% of the enlarged Units in circulation of MQREIT at an issue price to be determined later, pursuant to the Proposed Placement ("Proposed Placement to EPF");
- (iv) Proposed authority to allot and issue up to 31,952,333 new Units for the purpose of the payment of management fee to the Manager in the form of new Units ("Proposed Authority"); and
- (v) Proposed increase in the existing approved fund size of MQREIT from 700,000,000 Units to up to a maximum of 1,100,000,000 Units ("Proposed Increase in Fund Size")

An announcement was made on 11 July 2016, that the following have been submitted to the Securities Commission ("SC") on the same day:

- (i) Valuation Report for the Property in respect of the Proposed Acquisition; and
- (ii) Waiver application form (i) complying with Clauses 14.04 (a)(i) and (ii) of the REIT Guidelines, and (ii) having to submit to the SC a declaration from the advisers/directors of the Manager stating that the Trustee, on behalf of the Unitholders, will enter into a private caveat to protect its interest in the Property and to prevent other encumbrances from being entered by any other party.

Subsequent to the above it was announced on 4 August 2016, SC had, vide its letter dated 3 August 2016, approved the exemptions from:

- (i) Compliance with Clauses 14.04(a)(i) and (ii) of the REIT Guidelines; and
- (ii) Submitting to the SC a declaration from the advisers/directors of the Managers stating that the Trustee, on behalf of the Unitholders, will enter into a private caveat to protect its interest in the Property and to prevent other encumbrances from being entered by any other party.

As announced on 8 August 2016, an application to the SC in respect of the Proposals was submitted on the same day.

On 28 September 2016, on behalf of the Board, CIMB, HLIB and Maybank IB announced that MQREIT had on 28 September 2016 received the approval of the SC via their letter dated 27 September 2016 for the:

- (i) value of the Property pursuant to Clause 10.12(b) of the REIT Guidelines;
- (ii) issuance of new Units; and
- (iii) listing of and quotation for the new Units on the Main Market of Bursa Securities.

# THE MANAGER'S REPORT

cont'd

## Other significant events (cont'd)

### (a) Proposed Acquisition; Proposed Placement; Proposed Placement to Malaysian Resources Corporation Berhad; Proposed Placement to Employees Provident Fund Board; Proposed Authority; and Proposed Increase in Fund Size (collectively referred to as the "Proposals") (cont'd)

subject to the terms and conditions as set out below:

#### Terms

- (i) Issuance of:
  - (a) up to 406,666,667 new Units pursuant to the Proposed Placement;
  - (b) up to 31,952,333 new Units pursuant to the Proposed Authority; and
- (ii) Listing and quotation for up to 438,619,000 new Units on the Main Market of Bursa Securities.

#### Conditions

- (i) In relation to the Proposed Placement;
  - (a) Maybank IB, CIMB, HLIB and the Manager are to inform the SC of the actual number of new Units issued, the date of the issuance of the new Units and the date of the listing of and quotation for such new Units on the Main Market of Bursa Securities; and
  - (b) The issuance and listing of new Units on the Main Market of Bursa Securities must be completed within 6 months from the date of the decision letter. The SC's approval is deemed to lapsed if the Manager fails to do so within the stipulated timeframe.
- (ii) In relation to the Proposed Authority, the Manager is to inform the SC of the actual number of new Units issued, the date of the issuance of the new Units and the date of the listing of and quotation for such new Units on the Main Market of Bursa Securities.

As announced on 11 October 2016, the application to Bursa Securities for the additional listing of and quotation for new Units to be issued pursuant to the Proposed Placement and Proposed Authority on the Main Market of Bursa Securities was submitted on the same day.

Subsequent to the above, an announcement was made on 21 November 2016, to inform that MQREIT had on even date, received the approval from Bursa Securities via their letter dated 21 November 2016 for the additional listing of and quotation for new Units to be issued pursuant to the Proposed Placement and Proposed Authority on the Main Market of Bursa Securities.

As announced on 21 November 2016, the Unitholders' Meeting of MQREIT was scheduled to be held at Sime Darby Convention Centre, Ballroom 3, Level 1, No 1A, Jalan Bukit Kiara, 1, 60000 Kuala Lumpur on Wednesday, 7 December 2016 at 10.30 a.m..

Pursuant to the above, the Notice of Meeting together with the circular to Unitholders in relation to the proposals and the corresponding addendum to the circular ("Addendum") and were despatched to Unitholders on 22 November 2016 and 25 November 2016 respectively.

As announced on 7 December 2016, all the resolutions as set out in the Notice of Meeting dated 22 November 2016 were duly passed at the Unitholder's meeting of MQREIT held on 7 December 2016.

Accordingly, on 7 December 2016, MQREIT Unitholders approved the acquisition of Menara Shell at the purchase price of RM640 million. Upon completion, the Proposed Acquisition is expected to expand MQREIT's asset portfolio size from RM1.63 billion as at 31 December 2015 to approximately RM2.27 billion.

It was announced on 8 December 2016, that following the bookbuilding exercise, the issue price of the Placement Units was fixed at RM1.20 per Unit, representing a discount of approximately 1.74% or RM0.0213 to the 5-day VWAMP of the Units, up to and including 7 December 2016 of RM1.2213, adjusted for the dividend of 4.15 sen per Unit.

# THE MANAGER'S REPORT

cont'd

## Other significant events (cont'd)

**(a) Proposed Acquisition; Proposed Placement; Proposed Placement to Malaysian Resources Corporation Berhad; Proposed Placement to Employees Provident Fund Board; Proposed Authority; and Proposed Increase in Fund Size (collectively referred to as the "Proposals") (cont'd)**

It was announced that a total of 406,619,000 Units will be allocated to selected investors, including to MRCB and EPF, representing approximately 61.48% of the existing Units in circulation of 661,381,000 Units. Accordingly, the Proposed Placement will raise gross proceeds of approximately RM487,942,800.

An announcement was made on 16 December 2016 to inform that all the Conditions Precedent under the SPA for the Proposed Acquisition have been fulfilled on 16 December 2016 and has become unconditional on even date.

As announced in the Trust's Additional Listing Announcement on 21 December 2016 and 22 December 2016 respectively, 406,619,000 Placement Units were issued at the unit price of RM1.20 per Unit and allotted on 21 December 2016 and subsequently listed and quoted on the Main Market of Bursa Securities with effect from 9.00 a.m. on Thursday, 22 December 2016. With the listing of the Placement Units, the enlarged Units in circulation is 1,068,000,000 Units.

Following the above, the Proposals, save for the Proposed Authority, have been completed.

**(b) Proposed establishment of Commercial Papers Programme ("CP Programme") and Medium Term Notes Programme ("MTN Programme") with aggregate combined limit of RM3.0 billion in nominal value (collectively referred to as the "Programmes") by Kinabalu Capital Sdn Bhd ("Issuer")**

As announced on 30 November 2016, MRCB Quill Management Sdn. Bhd., the manager of MQREIT, is pleased to announce that the issuer, a wholly-owned special purpose vehicle of Maybank Trustees Berhad (as the trustee for and on behalf of MQREIT), has on 30 November 2016 lodged the Programmes with the Securities Commission ("SC").

The CP Programme shall have a legal tenure of seven (7) years from the date of the first issue of the CPs under the CP Programme, whereas the MTN Programme shall have a legal tenure of twenty (20) years from the date of the first issue of MTNs under the MTN Programme. Issuance of CPs and/or MTNs from time to time under the Programmes may be rated and/or unrated and shall be determined prior to such issuance.

Proceeds raised from the issuance of CPs and/or MTNs under the Programmes may be utilised by the Issuer, amongst others, to advance to MQREIT to finance or part-finance, amongst others, investment activities (including without limitation capital expenditure, asset enhancement and the related acquisitions and financing expenses) of MQREIT, refinancing of existing and/or future borrowings/facilities of MQREIT, and/or working capital requirements of MQREIT, from time to time.

CIMB Investment Bank Berhad and Maybank Investment Bank Berhad are the Joint Principal Advisors, Joint Lead Arrangers and Joint Lead Managers for the Programmes.

As announced on 22 December 2016, MRCB Quill Management Sdn. Bhd., the manager of MQREIT has on 22 December 2016, made its first issuance of RM144 million in nominal value of CPs and RM20 million in nominal value of MTNs out of the respective Programmes.

Proceeds raised from the issuance of CPs and MTNs under the Programme were utilised by the Issuer, amongst others, to advance to MQREIT to part-finance the acquisition of Menara Shell together with a 5-storey podium and a 4-storey basement car park.

## Subsequent event

**(a) The Authority to allot and issue up to 18,619,000 new Units in MQREIT for the purpose of the payment of management Fee to MRCB Quill Management Sdn. Bhd. in the form of new Units ("Authority")**

As announced on 3 January 2017, the Authority, which was approved by unitholders of MQREIT at the unitholders' meeting on 12 March 2015, has lapsed on 31 December 2016, following the expiry of the approval from the authorities and the unitholders of MQREIT to implement the Authority by 31 December 2016. No Manager's Unit was issued pursuant to the Authority.

## THE MANAGER'S REPORT

cont'd

### Auditors

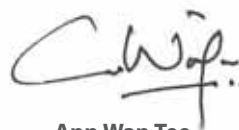
The auditors, Ernst & Young, have expressed their willingness to continue in office.

Signed on behalf of the Manager, MRCB Quill Management Sdn. Bhd.



**Dato' Michael Ong Leng Chun**  
*Director*

Kuala Lumpur, Malaysia  
23 February 2017



**Ann Wan Tee**  
*Director*



## STATEMENT BY MANAGER

We, Dato' Michael Ong Leng Chun and Ann Wan Tee, being two of the directors of the Manager, MRCB Quill Management Sdn. Bhd., do hereby state that, in the opinion of the directors, the accompanying financial statements set out on pages 113 to 167 are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and applicable provisions of the Trust Deed and Guidelines on Real Estate Investment Trusts issued by the Securities Commission so as to give a true and fair view of the financial position of MQREIT as at 31 December 2016 and its financial performance and cash flows of MQREIT for the year then ended.

The supplementary information set out in Note 39 to the financial statements on page 167 has been prepared in accordance with Guidance on Special Matter No. 1, *Determination of Realised and Unrealised Profits or Losses in the Context of Disclosures Pursuant to Bursa Malaysia Securities Berhad Listing Requirements*, as issued by the Malaysian Institute of Accountants and the directive of Bursa Malaysia Securities Berhad.

Signed on behalf of the Manager, MRCB Quill Management Sdn. Bhd.



**Dato' Michael Ong Leng Chun**  
Director

Kuala Lumpur, Malaysia  
23 February 2017



**Ann Wan Tee**  
Director

## STATUTORY DECLARATION

I, Yong Su-Lin, being the officer primarily responsible for the financial management of MRCB-Quill REIT, do solemnly and sincerely declare that the accompanying financial statements set out on pages 113 to 167 are in my opinion correct, and I make this solemn declaration conscientiously believing the same to be true and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by  
the abovenamed **Yong Su-Lin**  
at Kuala Lumpur in the Federal Territory  
on 23 February 2017.

Before me,  
Commissioner of Oath




**Yong Su-Lin**

## TRUSTEE'S REPORT

To the Unitholders of MRCB-Quill REIT

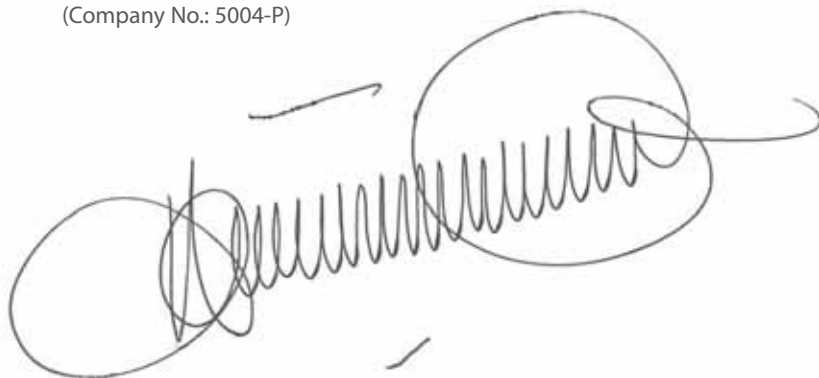
We have acted as Trustee of MRCB-Quill REIT ("MQREIT") for the financial year ended 31 December 2016. To the best of our knowledge, MRCB Quill Management Sdn. Bhd. ("the Manager") has managed MQREIT in the financial year under review in accordance to the following:

- (a) the limitation imposed on the investment powers of the Manager and the Trustee under the Trust Deed, other applicable provisions of the Trust Deed, the Guidelines on Real Estate Investment Trusts issued by Securities Commission Malaysia, the Capital Markets & Services Act 2007 and other applicable laws; and
- (b) the valuation of MQREIT is carried out in accordance with the Trust Deed and other regulatory requirements.

An interim distribution of 4.23 sen per unit has been distributed to the unitholders of MQREIT on 8 September 2016 for the financial period from 1 January 2016 to 30 June 2016, and a special distribution of 4.15 sen per unit being income distribution for the period 1 July 2016 to 16 December 2016 was paid on 13 January 2017.

We are of the view that the distributions are consistent with the objectives of MQREIT.

For and on behalf of **MAYBANK TRUSTEES BERHAD**  
(Company No.: 5004-P)

A handwritten signature in black ink, consisting of a series of loops and a long horizontal stroke, positioned above the name Bernice K M Lau.

**BERNICE K M LAU**  
Head, Operations  
Kuala Lumpur

# INDEPENDENT AUDITORS' REPORT

To the Unitholders of MRCB-Quill REIT

## REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

### *Opinion*

We have audited the financial statements of MRCB-Quill REIT ("MQREIT"), which comprise the statement of financial position as at 31 December 2016, and the statement of comprehensive income, statement of changes in equity and statement of cash flows of MQREIT for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information, as set out on pages 113 to 167.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of MQREIT as at 31 December 2016, and of its financial performance and cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards ("MFRS"), International Financial Reporting Standards ("IFRS") and the requirements of the applicable provisions of the Deed and Guidelines on Real Estate Investment Trusts issued by the Securities Commission Malaysia.

### *Basis for Opinion*

We conducted our audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing. Our responsibilities under those standards are further described in the *Auditors' responsibilities for the Audit of the Financial Statements* section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### *Independence and other ethical responsibilities*

We are independent of MQREIT in accordance with the By-Laws (on Professional Ethics, Conduct and Practice) of the Malaysian Institute of Accountants ("By-Laws") and the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the By-Laws and the IESBA Code.

### *Key Audit Matters*

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of MQREIT for the current period. These matters were addressed in the context of our audit of the financial statements of MQREIT as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditors' responsibilities for the Audit of the Financial Statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis of our audit opinion on the accompanying financial statements.

### *Valuation of Investment Properties*

MQREIT adopts the fair value model for its investment properties. MQREIT policy is that property valuations are performed by external experts at least once a year. The carrying value of the investment properties as at 31 December 2016 of RM2,222,000,000 represents 97% of total assets of MQREIT and therefore the valuation exercise was significant to our audit. The areas that involved significant audit effort and judgement were the assessment of the basis and assumptions used by the external experts to derive the fair value of the investment properties. The basis and assumptions include amongst others, estimated rental revenues, yield rates and void rates which are based on current and future market or economic conditions.

Our audit procedures included, amongst others, considering the objectivity, independence and expertise of the external appraisers. We furthermore assessed the appropriateness of the valuation methodology adopted, reviewed and assessed inputs related to the property for the valuations and considered the underlying assumptions against the market estimates.

We also focused on the adequacy of MQREIT's disclosures on those assumptions to which the outcome of the valuation is most sensitive, that is, those that have the most significant effect on the determination of the fair value of the investment properties. MQREIT's disclosures on the investment properties, which also explains the effects on the valuation following any changes in key parameters used in determining the fair value are included in Note 4.2(a) and Note 15 to the financial statements.

# INDEPENDENT AUDITORS' REPORT

To the Unitholders of MRCB-Quill REIT  
cont'd

## REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (cont'd)

### *Information Other than the Financial Statements and Auditors' Report Thereon*

The Manager of MQREIT is responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial statements of MQREIT and our auditors' report thereon.

Our opinion on the financial statements of MQREIT does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements of MQREIT, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements of MQREIT or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### *Responsibilities of Manager, Trustee and Those Charged with Governance for the Financial Statements*

The Manager of MQREIT is responsible for the preparation of financial statements of MQREIT that give a true and fair view in accordance with MFRS, IFRS and the requirements of the applicable provisions of the Deed and Guidelines on Real Estate Investment Trusts issued by the Securities Commission Malaysia. The Manager is also responsible for such internal control as the Manager determine is necessary to enable the preparation of financial statements of MQREIT that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements of MQREIT, the Manager is responsible for assessing MQREIT's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Manager either intends to liquidate MQREIT or to cease operations, or has no realistic alternative to do so.

Those charged with governance are responsible for overseeing MQREIT's financial reporting process.

### *Auditors' Responsibilities for the Audit of the Financial Statements*

Our objectives are to obtain reasonable assurance about whether the financial statements of MQREIT, as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with approved standards on auditing in Malaysia and International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements of MQREIT, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of MQREIT's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Manager.
- Conclude on the appropriateness of the Manager's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on MQREIT's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements of MQREIT or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause MQREIT to cease to continue as a going concern.

# INDEPENDENT AUDITORS' REPORT

To the Unitholders of MRCB-Quill REIT  
cont'd

## REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (cont'd)

### *Auditors' Responsibilities for the Audit of the Financial Statements (cont'd)*

As part of an audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing, we exercise professional judgment and maintain professional skepticism throughout the audit. We also: (cont'd)

- Evaluate the overall presentation, structure and content of the financial statements of MQREIT, including the disclosures, and whether the financial statements of MQREIT represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities and business activities within MQREIT to express an opinion on the financial statements of MQREIT. We are responsible for the direction, supervision and performance of MQREIT's audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of MQREIT of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## OTHER REPORTING RESPONSIBILITIES

The supplementary information set out in Note 39 on page 167 is disclosed to meet the requirement of Bursa Malaysia Securities Berhad and is not part of the financial statements. The Manager is responsible for the preparation of the supplementary information in accordance with Guidance on Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, as issued by the Malaysian Institute of Accountants ("MIA Guidance") and the directive of Bursa Malaysia Securities Berhad. In our opinion, the supplementary information is prepared, in all material respects, in accordance with the MIA Guidance and the directive of Bursa Malaysia Securities Berhad.


## OTHER MATTERS

This report is made solely to the unitholders of MQREIT, as a body, and for no other purpose. We do not assume responsibility to any other person for the content of this report.



**Ernst & Young**  
AF: 0039  
Chartered Accountants

Kuala Lumpur, Malaysia  
23 February 2017



**Tan Shium Jye**  
No. 2991/05/18(J)  
Chartered Accountant



# STATEMENT OF COMPREHENSIVE INCOME

For the Financial Year Ended 31 December 2016

|  | Note | 2016<br>RM   | 2015<br>RM   |
|--|------|--------------|--------------|
| <b>Total income</b>  |      |              |              |
| Revenue  |      |              |              |
| - Realised   | 5    | 131,786,756  | 115,174,498  |
| - Unrealised (in relation to unbilled lease income receivable) | 5    | 4,861,095    | 5,115,201    |
|  |      | 136,647,851  | 120,289,699  |
| Property operating expenses                                    | 6    | (29,492,908) | (24,902,859) |
| Net property income  |      | 107,154,943  | 95,386,840   |
| Finance income   | 7    | 2,383,623    | 1,591,196    |
| Gain on divestment of investment property                      |      | -            | 594,734      |
| Change in fair value of investment properties                  |      |              |              |
| - As per valuation   | 15   | 3,542,803    | 6,677,375    |
| - Unbilled lease income receivable                             |      | (4,861,095)  | (5,115,201)  |
|  |      | 108,220,274  | 99,134,944   |
| <b>Total expenditure</b>                                       |      |              |              |
| Manager's fees   | 8    | (9,677,247)  | (8,553,750)  |
| Trustee's fee  | 9    | (486,842)    | (436,003)    |
| Finance costs  | 10   | (33,036,112) | (28,647,310) |
| Valuation fees   |      | (361,075)    | (243,000)    |
| Auditors' remuneration   |      | (149,520)    | (140,960)    |
| Tax agent's fee  |      | (54,114)     | (34,128)     |
| Administrative expenses  |      | (1,685,322)  | (381,793)    |
|  |      | (45,450,232) | (38,436,944) |
| <b>Income before taxation</b>                                  |      | 62,770,042   | 60,698,000   |
| Income tax expense   | 11   | -            | -            |
| <b>Income net of taxation</b>                                  |      | 62,770,042   | 60,698,000   |
| <b>Other comprehensive income</b>                              |      |              |              |
| (Loss)/gain on remeasurement of financial derivatives          |      | (3,263,700)  | 1,056,288    |
| <b>Other comprehensive income for the year net of tax</b>      |      | (3,263,700)  | 1,056,288    |
| <b>Total comprehensive income for the financial year</b>       |      | 59,506,342   | 61,754,288   |
| <b>Net income for the year is made up as follows:</b>          |      |              |              |
| - Realised   |      | 59,155,963   | 54,020,625   |
| - Unrealised   |      | 3,614,079    | 6,677,375    |
|  |      | 62,770,042   | 60,698,000   |

# STATEMENT OF COMPREHENSIVE INCOME

For the Financial Year Ended 31 December 2016  
cont'd

|   | Note  | 2016       | 2015       |
|---|-------|------------|------------|
| <b>Earnings per unit</b>  |       |            |            |
| After manager's fees (sen)  | 12(a) | 9.33       | 10.18      |
| Before manager's fees (sen)   | 12(b) | 10.77      | 11.62      |
| <b>Earnings per unit (realised)</b>   |       |            |            |
| After manager's fees (sen)  | 12(c) | 8.80       | 9.06       |
| Before manager's fees (sen)   | 12(d) | 10.24      | 10.50      |
| <b>Income distribution</b>  |       |            |            |
| 1st interim distribution of 1.88 sen paid on 15 April 2015 (RM) <sup>1</sup>    | 13    | -          | 7,334,463  |
| 2nd interim distribution of 2.22 sen paid on 28 August 2015 (RM) <sup>2</sup>   | 13    | -          | 14,682,658 |
| Final distribution of 4.37 sen paid on 29 February 2016 (RM) <sup>2 #</sup>     | 13    | -          | 28,902,350 |
| Interim distribution of 4.23 sen paid on 8 September 2016 (RM) <sup>2</sup>     | 13    | 27,976,416 | -          |
| Special distribution of 4.15 sen payable on 13 January 2017 (RM) <sup>2 *</sup> | 13    | 27,447,312 | -          |
|   |       | 55,423,728 | 50,919,471 |
| <b>Interim distribution per unit</b>  |       |            |            |
| Gross (sen) <sup>3</sup>  |       | 4.23       | 4.10       |
| <b>Special distribution per unit</b>  |       |            |            |
| Gross (sen) <sup>3</sup>  |       | 4.15       | -          |
| <b>Final distribution per unit</b>  |       |            |            |
| Gross (sen) <sup>3</sup>  |       | -          | 4.37       |

<sup>1</sup> Based on 390,131,000 units entitled to 1st interim distribution for financial year 2015;

<sup>2</sup> Based on 661,381,100 units entitled to distribution for financial year 2015 and 2016;

<sup>3</sup> Income distributed to resident individuals, non-resident individuals, resident institutional investors, non-resident institutional investors and non-resident companies are subject to withholding tax.

<sup>#</sup> Final income distribution for the financial year 2015 declared on 22 January 2016 and paid on 29 February 2016.

<sup>\*</sup> Special income distribution for the financial year 2016 declared on 30 November 2016 and will be payable on 13 January 2017.

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

# STATEMENT OF FINANCIAL POSITION

As at 31 December 2016

|   | Note | 2016<br>RM    | 2015<br>RM    |
|---|------|---------------|---------------|
| <b>Assets</b>   |      |               |               |
| <b>Non-current assets</b>                                       |      |               |               |
| Plant and equipment   | 14   | 225,686       | 236,582       |
| Investment properties   | 15   | 2,222,000,000 | 1,569,800,000 |
| Derivative assets   | 16   | -             | 1,594,224     |
| Lease receivables   | 17   | 2,745,750     | 2,000,864     |
|   |      | 2,224,971,436 | 1,573,631,670 |
| <b>Current assets</b>   |      |               |               |
| Trade and other receivables                                     | 18   | 17,626,110    | 5,648,126     |
| Derivative assets   | 16   | -             | 686,257       |
| Lease receivables   | 17   | 692,759       | 409,684       |
| Deposits, cash and bank balances                                | 19   | 54,051,281    | 44,863,963    |
|   |      | 72,370,150    | 51,608,030    |
| <b>Total assets</b>   |      | 2,297,341,586 | 1,625,239,700 |
| <b>Liabilities</b>  |      |               |               |
| <b>Non-current liabilities</b>                                  |      |               |               |
| Borrowings  | 21   | 662,462,799   | 500,811,606   |
| Derivative liabilities  | 16   | 983,219       | -             |
| Security deposits   |      | 18,794,661    | 13,292,294    |
| Other payables  | 20   | 3,164,524     | 1,608,507     |
|   |      | 685,405,203   | 515,712,407   |
| <b>Current liabilities</b>                                      |      |               |               |
| Trade and other payables  | 20   | 28,350,115    | 14,246,501    |
| Borrowings  | 21   | 189,104,175   | 188,910,256   |
| Security deposits   |      | 7,336,154     | 2,515,677     |
| Income distribution payable                                     |      | 27,447,312    | -             |
|   |      | 252,237,756   | 205,672,434   |
| <b>Total liabilities</b>  |      | 937,642,959   | 721,384,841   |
| <b>Net assets value ("NAV")</b>                                 |      | 1,359,698,627 | 903,854,859   |
| <b>Unitholders' funds</b>                                       |      |               |               |
| <b>Unitholders' funds attributable to unitholders of MQREIT</b> |      |               |               |
| Unitholders' capital  | 22   | 1,231,939,861 | 751,276,357   |
| Undistributed and non-distributable income                      |      | 127,758,766   | 152,578,502   |
| <b>Total unitholders' funds</b>                                 |      | 1,359,698,627 | 903,854,859   |

# STATEMENT OF FINANCIAL POSITION

As at 31 December 2016

cont'd

|   | Note | 2016<br>RM    | 2015<br>RM  |
|---|------|---------------|-------------|
| <b>Net asset value per unit</b>   | 25   |               |             |
| Before income distribution <sup>1</sup>   |      | 1.2988        | 1.3666      |
| After income distribution <sup>2</sup>  |      | 1.2731        | 1.3229      |
| <b>Number of units in circulation</b>   |      |               |             |
| As at 31 December (units)   | 22   | 1,068,000,000 | 661,381,000 |
| <br>  |      |               |             |
| 1 Before the special income distribution of 4.15 sen per unit and the final income distribution of 4.37 sen per unit for the financial year 2016 and 2015 respectively. |      |               |             |
| 2 After the special income distribution of 4.15 sen per unit and the final income distribution of 4.37 sen per unit for the financial year 2016 and 2015 respectively.  |      |               |             |

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

# STATEMENT OF CHANGES IN NET ASSET VALUE

For the Financial Year Ended 31 December 2016

|  |                      | Distributable                 | Non-distributable               |                         | Total undistributed and non-distributable income | Unitholders' funds |
|--|----------------------|-------------------------------|---------------------------------|-------------------------|--|--------------------|
|  | Unitholders' capital | Undistributed income realised | Undistributed income unrealised | Cash flow hedge reserve |  |                    |
|  | RM                   | RM                            | RM                              | RM                      | RM   | RM                 |
| <b>At 1 January 2016</b>                                       | 751,276,357          | 42,374,963                    | 107,923,058                     | 2,280,481               | 152,578,502                                      | 903,854,859        |
| Issuance/placements of new units on 22 December 2016 (Note 22) | 487,942,800          | -                             | -                               | -                       | -  | 487,942,800        |
| Expenses on issuance/placements of new units (Note 22)         | (7,279,296)          | -                             | -                               | -                       | -  | (7,279,296)        |
| Total comprehensive income for the financial year              | -                    | 59,155,963                    | 3,614,079                       | (3,263,700)             | 59,506,342                                       | 59,506,342         |
|  | 1,231,939,861        | 101,530,926                   | 111,537,137                     | (983,219)               | 212,084,844                                      | 1,444,024,705      |
| <b>Transactions with unitholders</b>                           |                      |                               |                                 |                         |  |                    |
| Distribution to unitholders                                    | -                    | (84,326,078)                  | -                               | -                       | (84,326,078)                                     | (84,326,078)       |
| <b>At 31 December 2016</b>                                     | 1,231,939,861        | 17,204,848                    | 111,537,137                     | (983,219)               | 127,758,766                                      | 1,359,698,627      |
| <b>At 1 January 2015</b>                                       | 411,712,067          | 27,069,066                    | 101,245,683                     | 1,224,193               | 129,538,942                                      | 541,251,009        |
| Issuance/placements of new units on 30 March 2015 (Note 22)    | 342,000,000          | -                             | -                               | -                       | -  | 342,000,000        |
| Expenses on issuance/placements of new units (Note 22)         | (2,435,710)          | -                             | -                               | -                       | -  | (2,435,710)        |
| Total comprehensive income for the financial year              | -                    | 54,020,625                    | 6,677,375                       | 1,056,288               | 61,754,288                                       | 61,754,288         |
|  | 751,276,357          | 81,089,691                    | 107,923,058                     | 2,280,481               | 191,293,230                                      | 942,569,587        |
| <b>Transactions with unitholders</b>                           |                      |                               |                                 |                         |  |                    |
| Distribution to unitholders                                    | -                    | (38,714,728)                  | -                               | -                       | (38,714,728)                                     | (38,714,728)       |
| <b>At 31 December 2015</b>                                     | 751,276,357          | 42,374,963                    | 107,923,058                     | 2,280,481               | 152,578,502                                      | 903,854,859        |

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.



# STATEMENT OF CASH FLOWS

For the Financial Year Ended 31 December 2016

|   | Note | 2016<br>RM    | 2015<br>RM    |
|---|------|---------------|---------------|
| <b>Cash flows from operating activities</b>                   |      |               |               |
| Income before taxation  |      | 62,770,042    | 60,698,000    |
| Adjustments for:  |      |               |               |
| Finance costs   | 10   | 33,036,112    | 28,647,310    |
| Depreciation of plant and equipment                           | 14   | 58,166        | 13,794        |
| Changes in fair value of investment properties                |      | 1,318,292     | (1,562,174)   |
| Unbilled lease income   | 5    | (4,861,095)   | (5,115,201)   |
| Allowance for impairment of trade receivables                 | 18   | 280,267       | 67,372        |
| Gain on divestment of investment property                     |      | -             | (594,734)     |
| Finance income  |      | (2,383,623)   | (1,591,196)   |
| <b>Operating cash flows before changes in working capital</b> |      | 90,218,161    | 80,563,171    |
| Changes in working capital:                                   |      |               |               |
| Increase in trade and other receivables                       |      | (12,070,410)  | (30,414)      |
| Increase in trade and other payables                          |      | 27,741,395    | 7,121,247     |
| <b>Net cash flows generated from operating activities</b>     |      | 105,889,146   | 87,654,004    |
| <b>Cash flows from investing activities</b>                   |      |               |               |
| Additions to investment properties                            | 15   | (648,657,197) | (751,922,625) |
| Proceed from divestment of investment property                |      | -             | 27,300,000    |
| Purchase of plant and equipment                               | 14   | (47,270)      | (233,000)     |
| Investment in lease receivable                                | 17   | (1,027,961)   | (2,410,548)   |
| Changes in deposits in financial institution                  |      | 160,678       | (1,851,105)   |
| Interest received   |      | 1,623,044     | 887,706       |
| <b>Net cash flows used in investing activities</b>            |      | (647,948,706) | (728,229,572) |
| <b>Cash flows from financing activities</b>                   |      |               |               |
| Distribution to unitholders                                   |      | (56,878,766)  | (38,714,728)  |
| Proceeds from borrowings                                      | 21   | 161,034,547   | 527,669,341   |
| Repayment of borrowings                                       | 21   | -             | (145,000,000) |
| Proceeds from issuance/placements of new units                | 22   | 487,942,800   | 342,000,000   |
| Expenses paid on issuance/placements of new units             | 22   | (7,279,296)   | (2,435,710)   |
| Finance costs paid  |      | (33,411,729)  | (23,219,473)  |
| <b>Net cash flows generated from financing activities</b>     |      | 551,407,556   | 660,299,430   |
| <b>Net increase in cash and cash equivalents</b>              |      | 9,347,996     | 19,723,862    |
| <b>Cash and cash equivalents at 1 January</b>                 |      | 40,469,910    | 20,746,048    |
| <b>Cash and cash equivalents at 31 December</b>               | 19   | 49,817,906    | 40,469,910    |

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

# NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

## 1. MQREIT, THE MANAGER AND THEIR PRINCIPAL ACTIVITIES

MRCB-Quill REIT ("MQREIT") was constituted under a Deed dated 9 October 2006 (the "Trust Deed"), by MRCB Quill Management Sdn. Bhd. as the manager (the "Manager") and Maybank Trustees Berhad as the trustee (the "Trustee"), and a Supplemental Deed dated 27 August 2007, Second Supplemental Deed dated 28 May 2013 and Third Supplemental Deed dated 2 April 2015, and is categorised as a real estate investment trust. MQREIT commenced its operations in 2006 and was listed on the Main Market of Bursa Malaysia Securities Berhad ("Bursa Malaysia") on 8 January 2007.

The principal activity of MQREIT involves acquisition of and investment in commercial properties, primarily in Malaysia. The principal activity of each of the special purpose entities of MQREIT is to facilitate financing for MQREIT as disclosed in Note 23 to the financial statements. There have been no significant changes in the nature of these activities during the financial year.

The Manager is a company incorporated in Malaysia. The principal activity of the Manager is to manage MQREIT. There has been no significant change in the nature of these activities during the financial year.

The financial statements were authorised for issue by the Manager in accordance with a resolution of its directors on 23 February 2017.

## 2. TERM OF MQREIT

MQREIT will continue its operations until such time as determined by the Trustee and the Manager as provided under Clause 26 of the Trust Deed.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 3.1 Basis of preparation

The financial statements of MQREIT have been prepared in accordance with Malaysian Financial Reporting Standards ("MFRS"), International Financial Reporting Standards ("IFRS") and applicable provisions of the Trust Deed and Guidelines on Real Estate Investment Trusts issued by Securities Commission ("SC REIT Guidelines").

The financial statements have been prepared on the historical cost basis except as disclosed in the accounting policies below.

The financial statements are presented in Ringgit Malaysia ("RM").

# NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

cont'd

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### 3.2 Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year.

On 1 January 2016, MQREIT adopted the following new and amended MFRS and IC Interpretations mandatory for annual financial periods beginning on or after 1 January 2016:

| Description   | Effective for annual periods beginning on or after |
|---|--|
| Annual Improvements to MFRSs 2012 - 2014 Cycle  | 1 January 2016                                     |
| Amendments to MFRS 116 and MFRS 138: Clarification of Acceptable Methods of Depreciation and Amortisation | 1 January 2016                                     |
| Amendments to MFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests in Joint Operations    | 1 January 2016                                     |
| Amendments to MFRS 127: Equity Method in Separate Financial Statements                                    | 1 January 2016                                     |
| Amendments to MFRS 101: Disclosure Initiatives  | 1 January 2016                                     |
| Amendments to MFRS 10, MFRS 12 and MFRS 128: Investment Entities: Applying the Consolidation Exception    | 1 January 2016                                     |
| MFRS 14 Regulatory Deferral Accounts  | 1 January 2016                                     |

The adoption of the above standards, amendments and interpretations did not have any material effect on the financial performance or position of MQREIT.

### 3.3 Standards issued but not yet effective

The standards and interpretations that are issued but not yet effective up to the date of issuance of MQREIT's financial statements are disclosed below. MQREIT intends to adopt these standards, if applicable, when they become effective.

| Description   | Effective for annual periods beginning on or after |
|---|--|
| MFRS 107 Disclosures Initiatives (Amendments to MFRS 107)   | 1 January 2017                                     |
| MFRS 112 Recognition of Deferred Tax for Unrealised Losses (Amendments to MFRS 112)                                       | 1 January 2017                                     |
| MFRS 2 Classification and Measurement of Share-based Payment Transactions (Amendments to MFRS 2)                          | 1 January 2018                                     |
| MFRS 15 Revenue from Contracts with Customers   | 1 January 2018                                     |
| MFRS 9 Financial Instruments  | 1 January 2018                                     |
| MFRS 16 Leases  | 1 January 2019                                     |
| Amendments to MFRS 10 and MFRS 128: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture | Deferred   |

The directors of the Manager expect that the adoption of the above standards and interpretations will have no material impact on the financial statements in the period of initial application.

# NOTES TO THE FINANCIAL STATEMENTS

31 December 2016  
cont'd

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### 3.3 Standards issued but not yet effective (cont'd)

#### **MFRS 107 Disclosures Initiatives (Amendments to MFRS 107)**

The amendments to MFRS 107 Statement of Cash Flows requires an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. On initial application of this amendment, entities are not required to provide comparative information for preceding periods. These amendments are effective for annual periods beginning on or after 1 January 2017, with early application permitted. Application of amendments will result in additional disclosures to be provided by MQREIT.

#### **MFRS 112 Recognition of Deferred Tax for Unrealised Losses (Amendments to MFRS 112)**

The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

Entities are required to apply the amendments retrospectively. However, on initial application of the amendments, the change in the opening equity of the earliest comparative period may be recognised in opening retained earnings (or in another component of equity, as appropriate), without allocating the change between retained earnings and other components of equity. Entities applying this relief must disclose that fact.

These amendments are effective for annual periods beginning on or after 1 January 2017 with early application permitted. If an entity applies these amendments for an earlier period, it must disclose that fact. These amendments are not expected to have any impact on MQREIT.

#### **MFRS 2 Classification and Measurement of Share-based Payment Transactions (Amendments to MFRS 2)**

The amendments to MFRS 2 address three main areas:

- (a) The effects of vesting conditions on the measurement of a cash-settled share-based payment transaction;
- (b) The classification of a share-based payment transaction with net settlement features for withholding tax obligations; and
- (c) Accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled.

On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. The amendments are effective for annual periods beginning on or after 1 January 2018, with early application permitted. These amendments are not expected to have any impact on MQREIT.

#### **MFRS 15 Revenue from Contracts with Customers**

MFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. MFRS 15 will supersede the current revenue recognition guidance including MFRS 118 Revenue, MFRS 111 Construction Contracts and the related interpretations when it becomes effective.

The core principle of MFRS 15 is that an entity should recognise revenue which depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

Under MFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

# NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

cont'd

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### 3.3 Standards issued but not yet effective (cont'd)

#### MFRS 15 Revenue from Contracts with Customers (cont'd)

Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2018 with early adoption permitted. MQREIT is currently assessing the impact of MFRS 15 and plans to adopt the new standard on the required effective date.

#### MFRS 9 Financial Instruments

In November 2014, MASB issued the final version of MFRS 9 Financial Instruments which reflects all phases of the financial instruments project and replaces MFRS 139 Financial Instruments: Recognition and Measurement and all previous versions of MFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. MFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. The adoption of MFRS 9 will have an effect on the classification and measurement of MQREIT's financial assets, but no impact on the classification and measurement of MQREIT's financial liabilities.

#### MFRS 16 Leases

MFRS 16 will replace MFRS 117 Leases, IC Interpretation 4 Determining whether an Arrangement contains a Lease, IC Interpretation 115 Operating Lease-Incentives and IC Interpretation 127 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. MFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under MFRS 117.

At the commencement date of a lease, a lessee will recognise a liability to make lease payments and an asset representing the right to use the underlying asset during the lease term. Lessees will be required to recognise interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessor accounting under MFRS 16 is substantially the same as the accounting under MFRS 117. Lessors will continue to classify all leases using the same classification principle as in MFRS 117 and distinguish between two types of leases: operating and finance leases.

MFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted but not before an entity applies MFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. MQREIT is currently assessing the impact of MFRS 16 and plans to adopt the new standard on the required effective date.

#### Amendments to MFRS 10 and MFRS 128: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments clarify that:

- gains and losses resulting from transactions involving assets that do not constitute a business, between investor and its associate or joint venture are recognised in the entity's financial statements only to the extent of unrelated investors' interests in the associate or joint venture; and
- gains and losses resulting from transactions involving the sale or contribution of assets to an associate of a joint venture that constitute a business is recognised in full.

The amendments are to be applied prospectively to the sale or contribution of assets occurring in annual periods beginning on or after a date to be determined by Malaysian Accounting Standards Board. Earlier application is permitted. These amendments are not expected to have any impact on MQREIT.



# NOTES TO THE FINANCIAL STATEMENTS

31 December 2016  
cont'd

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### 3.4 Basis of consolidation

The consolidated financial statements comprise the financial statements of MQREIT and its special purpose entities ("SPEs") as at the reporting date. The financial statements of the SPEs used in the preparation of the consolidated financial statements are prepared for the same reporting date as MQREIT. Consistent accounting policies are applied to like transactions and events in similar circumstances. The SPEs are established for the specific purpose of raising financing on behalf of MQREIT for the acquisition of real estate and are single-purpose entities.

MQREIT controls the SPEs if and only if MQREIT has all the following:

- (i) Power over the SPEs (such as existing rights that give it the current ability to direct the relevant activities of the SPEs);
- (ii) Exposure, or rights, to variable returns from its investment with the SPEs; and
- (iii) The ability to use its power over the SPEs to affect its returns.

SPEs controlled by MQREIT were established under terms that impose strict limitations on the decision-making powers of the SPEs management resulting in MQREIT receiving all of the benefits related to the SPEs operations and net assets.

All intra-group balances, income and expenses and unrealised gains and losses resulting from intra-group transactions are eliminated in full.

### 3.5 Plant and equipment

All items of plant and equipment are initially recorded at cost. The cost of an item of plant and equipment is recognised as an asset if, and only if, it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably.

Subsequent to recognition, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. When significant parts of plant and equipment are required to be replaced in intervals, MQREIT recognises such parts as individual assets with specific useful lives and depreciation, respectively. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in profit or loss as incurred.

Depreciation of plant and equipment is provided for on a straight-line basis to write off the cost of each asset to its residual value over the estimated useful life, at the following annual rates:

|                        |           |
|------------------------|-----------|
| Plant and machinery    | 20%       |
| Office equipment       | 33% - 50% |
| Furniture and fittings | 33%       |

The carrying values of plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

The residual value, useful life and depreciation method are reviewed at each financial year-end, and adjusted prospectively, if appropriate.

An item of plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds, if any, and the carrying amount of the asset) is included in profit or loss when the asset is derecognised.

# NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

cont'd

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### 3.6 Investment properties

Investment properties consist of investment in real estate assets primarily in commercial properties. These properties are held either to earn rental income or for capital appreciation or for both.

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met; and excludes the costs of day-to-day servicing of an investment property. Subsequent to initial recognition, investment properties are measured at fair value which reflects market conditions at the reporting date. Fair value is arrived at by discounting cash flow projections based on reliable estimates of future cash flows, supported by the terms of any existing lease and other contracts and (when possible) by external evidence such as current market rent for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows. Valuations are performed by accredited independent valuers having an appropriate recognised professional qualification and recent experience in the location and category of the properties being valued. In determining the carrying amount of an investment property, under the fair value model, the accrued rental and/or advance rental arising from recognising rental income from operating lease on straight line basis over the lease term are deducted against fair value of investment property.

Gains or losses arising from changes in the fair values of investment properties are recognised in the profit or loss in the year in which they arise. A property interest under an operating lease is classified and accounted for as an investment property on a property-by-property basis when MQREIT holds it to earn rentals or for capital appreciation or both. Any such property interest under an operating lease classified as an investment property is carried at fair value.

Investment properties are derecognised either when they have been disposed of or when they are permanently withdrawn from use and no future economic benefit is expected from their disposal. Any gain or loss on the retirement or disposal of an investment property is recognised in profit or loss in the year of retirement or disposal.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner-occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. For a transfer from owner-occupied property to investment property, the property is accounted for in accordance with the accounting policy for plant and equipment as set out in Note 3.5 up to the date of change in use.

### 3.7 Impairment of non-financial assets

MQREIT assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when an annual impairment assessment for an asset is required, MQREIT makes an estimate of the asset's recoverable amount.

An asset's recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units ("CGU")).

In assessing value in use, the estimated future cash flows expected to be generated by the asset are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where the carrying amount of an asset exceeds its recoverable amount, the asset is written down to its recoverable amount. Impairment losses recognised in respect of a CGU or groups of CGUs are allocated to reduce the carrying amount of the assets in the unit or groups of units on a pro-rata basis.

Impairment losses are recognised in profit or loss.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increase cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised previously. Such reversal is recognised in profit or loss.

# NOTES TO THE FINANCIAL STATEMENTS

31 December 2016  
cont'd

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### 3.8 Financial assets

Financial assets are recognised in the statement of financial position when, and only when, MQREIT becomes a party to the contractual provisions of the financial instrument.

When financial assets are recognised initially, they are measured at fair value, plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs.

MQREIT determines the classification of their financial assets at initial recognition, and the categories include financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets.

#### (i) Financial assets at fair value through profit or loss

Financial assets are classified as financial assets at fair value through profit or loss if they are held for trading or are designated as such upon initial recognition. Financial assets held for trading are derivatives (including separated embedded derivatives) or financial assets acquired principally for the purpose of selling in the near term.

Subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value. Any gains or losses arising from changes in fair value are recognised in profit or loss. Net gains or net losses on financial assets at fair value through profit or loss do not include exchange differences, interest and dividend income. Exchange differences, interest and dividend income on financial assets at fair value through profit or loss are recognised separately in profit or loss as part of other losses or other income.

Financial assets at fair value through profit or loss could be presented as current or non-current.

As at reporting date, MQREIT does not have any financial asset at fair value through profit or loss.

#### (ii) Loans and receivables

Financial assets with fixed or determinable payments that are not quoted in an active market are classified as loans and receivables.

Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, and through the amortisation process.

Loans and receivables are classified as current assets, except for those having maturity dates later than 12 months after the reporting date which are classified as non-current.

Loans and receivables of MQREIT comprise of trade and other receivables (other than prepayments) and cash and bank balances.

#### (iii) Held-to-maturity financial assets

Financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when MQREIT has the positive intention and ability to hold the investment to maturity.

Subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the held-to-maturity investments are derecognised or impaired, and through the amortisation process.

Held-to-maturity are classified as non-current assets, except for those having maturity within 12 months after the reporting date which are classified as current.

As at reporting date, MQREIT does not have any held-to-maturity financial assets.

# NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

cont'd

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### 3.8 Financial assets (cont'd)

#### (iv) Available-for-sale financial assets

Available-for-sale are financial assets that are designated as available-for-sale or are not classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments.

After initial recognition, available-for-sale financial assets are measured at fair value. Any gains or losses from changes in fair value of the financial asset are recognised in other comprehensive income, except that impairment losses, foreign exchange gains and losses on monetary instruments and interest calculated using the effective interest method are recognised in profit or loss. The cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment when the financial asset is derecognised. Interest income calculated using the effective interest method is recognised in profit or loss. Dividends on an available-for-sale equity instrument are recognised in profit or loss when the Company's right to receive payment is established.

Investments in equity instruments whose fair value cannot be reliably measured are measured at cost less impairment loss.

Available-for-sale financial assets are classified as non-current assets unless they are expected to be realised within 12 months after the reporting date.

As at reporting date, MQREIT does not have any available-for-sale financial assets.

A financial asset is derecognised where the contractual right to receive cash flows from the asset has expired. On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received and any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace concerned. All regular way purchases and sales of financial assets are recognised or derecognised on the trade date i.e., the date that MQREIT commits to purchase or sell the asset.

### 3.9 Derivative of financial instruments and hedge accounting

MQREIT uses derivative financial instrument such as interest rate swaps to hedge its interest rate risks. MQREIT applies hedge accounting for hedging relationships which qualify for hedge accounting. The fair value of interest rate swaps is determined by reference to market values for similar instruments.

For the purpose of hedge accounting, hedges are classified as cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognised firm commitment.

At the inception of a hedge relationship, MQREIT formally designates and documents the hedge relationship to which MQREIT wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value of cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

# NOTES TO THE FINANCIAL STATEMENTS

31 December 2016  
cont'd

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### 3.9 Derivative of financial instruments and hedge accounting (cont'd)

Hedges which meet the strict criteria for hedge accounting are accounted for as follows:

#### (i) Cash flow hedges

The effective portion of the gain or loss on the hedging instrument is recognised directly in other comprehensive income into cash flow hedge reserve, while any ineffective portion is recognised immediately in profit or loss as other operating expenses.

#### (ii) Derivatives that are not designated or do not qualify for hedge accounting

Any gains or losses arising from changes in fair value on derivatives during the financial period that do not qualify for hedge accounting and the ineffective portion of an effective hedge, are taken directly to the profit or loss.

MQREIT did not enter into any fair value hedge or net investment hedge as at the financial period end.

### 3.10 Impairment of financial assets

MQREIT assesses, at each reporting date, whether there is objective evidence that a financial asset or a group of financial assets is impaired.

#### (i) Financial assets carried at amortised cost

To determine whether there is objective evidence that an impairment loss on financial assets has been incurred, MQREIT considers factors such as the probability of insolvency or significant financial difficulties of the debtor and default or significant delay in payments. For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis based on similar risk characteristics. Objective evidence of impairment for a portfolio of receivables could include MQREIT's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period and observable changes in national or local economic conditions that correlate with default on receivables.

If any such evidence exists, the amount of impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The impairment loss is recognised in profit or loss.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable becomes uncollectible, it is written off against the allowance account.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that the carrying amount of the asset does not exceed its amortised cost at the reversal date. The amount of reversal is recognised in profit or loss.

#### (ii) Financial assets carried at cost

If there is objective evidence (such as significant adverse changes in the business environment where the issuer operates, probability of insolvency or significant financial difficulties of the issuer) that an impairment loss on financial assets carried at cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed in subsequent periods.

# NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

cont'd

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### 3.10 Impairment of financial assets (cont'd)

#### (iii) Available-for-sale financial assets

Significant or prolonged decline in fair value below cost, significant financial difficulties of the issuer or obligor, and the disappearance of an active trading market are considerations to determine whether there is objective evidence that investment securities classified as available-for-sale financial assets are impaired.

If an available-for-sale financial asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is transferred from equity to profit or loss.

Impairment losses on available-for-sale equity investments are not reversed in profit or loss in the subsequent periods. Increase in fair value, if any, subsequent to impairment loss is recognised in other comprehensive income.

### 3.11 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and at bank, demand deposits, and short term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

### 3.12 Financial liabilities

Financial liabilities are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability.

Financial liabilities, within the scope of MFRS 139, are recognised in the statement of financial position when, and only when, MQREIT becomes a party to the contractual provisions of the financial instrument. Financial liabilities are classified as either financial liabilities at fair value through profit or loss or other financial liabilities.

#### (i) Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss includes financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit and loss.

Financial liabilities held for trading include derivatives entered into by MQREIT that does not meet the hedge accounting criteria. Derivative liabilities are initially measured at fair value and subsequently stated at fair value, with any resultant gains or losses recognised in profit or loss. Net gains or losses on derivatives include exchange differences.

MQREIT does not have any financial liability at fair value through profit or loss.

#### (ii) Other financial liabilities

MQREIT's other financial liabilities include trade payables, other payables, security deposits and loans and borrowings.

Trade and other payables are recognised initially at fair value plus directly attributable transaction costs and subsequently measured at amortised cost using the effective interest method.

Loans and borrowings are recognised initially at fair value, net of transaction costs incurred, and subsequently measured at amortised cost using the effective interest method. Borrowings are classified as current liabilities unless MQREIT has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

For other financial liabilities, gains and losses are recognised in profit or loss when the liabilities are derecognised, and through the amortisation process.



# NOTES TO THE FINANCIAL STATEMENTS

31 December 2016  
cont'd

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### 3.12 Financial liabilities (cont'd)

#### (ii) Other financial liabilities (cont'd)

A financial liability is derecognised when the obligation under the liability is extinguished. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

### 3.13 Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the statements of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

### 3.14 Borrowing costs

Borrowing costs are capitalised as part of the cost of a qualifying asset if they are directly attributable to the acquisition, construction or production of that asset. Capitalisation of borrowing costs commences when the activities to prepare the asset for its intended use or sale are in progress and the expenditures and borrowing costs are incurred. Borrowing costs are capitalised until the assets are substantially completed for their intended use.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred. Borrowing costs consist of interest and other costs that MQREIT incurred in connection with the borrowing of funds.

### 3.15 Revenue and other income

Revenue and other income are recognised to the extent that it is probable that the economic benefits will flow to MQREIT and they can be reliably measured. Revenue and other income are measured at the fair value of consideration received or receivable.

#### (i) Rental income

Rental income is accounted for on a straight-line basis over the lease term. The aggregate costs of incentives provided to lessees are recognised as a reduction of rental income over the lease term on a straight-line basis.

#### (ii) Utilities recovery and others

Utilities recovery and others (such as license and service charges) are recognised on an accrual basis taking into account contractually defined terms.

#### (iii) Car park operations

Revenue from car park operations are recognised as and when the services are rendered.

#### (iv) Interest income

Interest income is recognised on an accrual basis using the effective interest method.

### 3.16 Leases - as lessor

Leases in which MQREIT does not transfer substantially all the risks and rewards of ownership of an asset are classified as operating leases. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

# NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

cont'd

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### 3.17 Income taxes

#### (i) Current tax

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

Current taxes are recognised in profit or loss except to the extent that the tax relates to items recognised outside profit or loss, either in other comprehensive income or directly in equity. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

#### (ii) Deferred tax

Deferred tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all temporary differences, except:

- where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except:

- where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax assets to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity and deferred tax arising from a business combination is adjusted against goodwill on acquisition.

# NOTES TO THE FINANCIAL STATEMENTS

31 December 2016  
cont'd

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### 3.17 Income taxes (cont'd)

#### (ii) Deferred tax (cont'd)

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

### 3.18 Current versus non-current classification

MQREIT presents assets and liabilities in the statement of financial position based on current/non-current classification. An asset is classified as current when it is:

- (i) Expected to be realised or intended to be sold or consumed in normal operating cycle;
- (ii) Held primarily for the purpose of trading;
- (iii) Expected to be realised within twelve months after the reporting period; or
- (iv) Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current. A liability is classified as current when:

- (i) It is expected to be settled in normal operating cycle;
- (ii) It is held primarily for the purpose of trading;
- (iii) It is due to be settled within twelve months after the reporting period; or
- (iv) There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

### 3.19 Provisions

Provisions are recognised when MQREIT has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When MQREIT expects some or all of a provision to be reimbursed, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the statement of comprehensive income net of any reimbursement.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of economic resources will be required to settle the obligation, the provision is reversed. If the effect of the time value of money is material, provisions are discounted using a current pre tax rate that reflects, where appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

# NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

cont'd

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### 3.20 Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by MQREIT.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

MQREIT uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, MQREIT determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purposes of fair value disclosures, MQREIT has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the assets or liabilities and the level of the of fair value hierarchy as explained above.

### 3.21 Unitholders' capital and units issuance expenses

An equity instrument is any contract that evidences a residual interest in the assets of MQREIT after deducting all of its liabilities. Units are equity instruments.

Units are recorded at the proceeds received, net of directly attributable incremental transaction costs. Units are classified as equity. Dividends on units are recognised in equity in the period in which they are declared.

# NOTES TO THE FINANCIAL STATEMENTS

31 December 2016  
cont'd

## 4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of MQREIT's financial statements requires the management to make judgements, estimates, and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosures at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future.

### 4.1 Critical judgements made in applying accounting policies

In the process of applying MQREIT's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

#### Operating lease commitments - as lessor

MQREIT has entered into commercial property leases on its investment property portfolio. MQREIT has determined, based on an evaluation of the terms and conditions of the arrangements, such as the lease term not constituting a major part of the economic life of the commercial property and the fair value of the asset, that it retains all the significant risks and rewards of ownership of these properties and accounts for the contracts as operating leases.

### 4.2 Key sources of estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

#### (a) Fair valuation of investment properties

MQREIT carries its investment properties at fair value, with changes in fair values being recognised in profit or loss. MQREIT had engaged independent professional valuers to determine the fair value and there are no material events that affect the valuation between the valuation date and financial year end.

The determined fair value of the investment properties by the independent professional valuers is most sensitive to the estimated yield rate and the void rate. The range of the term yield rate and the void rate used in the valuation is described in Note 15.

The following table demonstrates the sensitivity of the fair value measurement to changes in estimated term yield rate and void rate and its corresponding sensitivity result in a higher or lower fair value measurement:

|                   | Fair value          |              |
|-------------------|---------------------|--------------|
|                   | Increase/(decrease) |              |
|                   | 2016                | 2015         |
|                   | RM                  | RM           |
| <b>Yield rate</b> |                     |              |
| - 0.25%           | 87,983,831          | 58,454,702   |
| + 0.25%           | (81,983,831)        | (55,965,917) |
| <b>Void rate</b>  |                     |              |
| - 2.5%            | 55,190,845          | 28,685,184   |
| + 2.5%            | (56,690,116)        | (38,726,337) |

The other key assumptions used to determine the fair value of the investment properties, are further explained in Note 15.

# NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

cont'd

## 4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (cont'd)

### 4.2 Key sources of estimation uncertainty (cont'd)

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below: (cont'd)

#### (b) Impairment of loans and receivables

MQREIT assesses at each reporting date whether there is any objective evidence that a financial asset is impaired. To determine whether there is objective evidence of impairment, MQREIT considers factors such as the probability of insolvency or significant financial difficulties of the debtor and default or significant delay in payments. Where there is objective evidence of impairment, the amount and timing of future cash flows are estimated based on historical loss experience for assets with similar credit risk characteristics. The carrying amount of the MQREIT's loans and receivables at the reporting date is disclosed in Note 18.

## 5. REVENUE

|  | 2016<br>RM  | 2015<br>RM  |
|--|-------------|-------------|
| Rental income and service charges                              |             |             |
| - Realised   | 115,935,617 | 99,481,293  |
| - Unrealised (in relation to unbilled lease income receivable) | 4,861,095   | 5,115,201   |
| Car park income  | 10,865,365  | 10,284,643  |
| Utilities recovery   | 4,919,777   | 5,330,752   |
| Others   | 65,997      | 77,810      |
|  | 136,647,851 | 120,289,699 |

The realised revenue comprises rental and service charges, car park income from properties and utilities costs recoverable from tenants. The unrealised revenue refers to the unbilled lease income receivable pursuant to requirements of MFRS 117 *Leases*, recognise on straight-line basis.

## 6. PROPERTY OPERATING EXPENSES

|                                   | 2016<br>RM | 2015<br>RM |
|-----------------------------------|------------|------------|
| Quit rent and assessment          | 5,263,829  | 4,524,135  |
| Depreciation                      | 58,166     | 13,794     |
| Insurance                         | 742,704    | 714,814    |
| Property management fee           | 2,327,429  | 2,163,314  |
| Service contracts and maintenance | 9,630,614  | 7,303,708  |
| Utilities                         | 11,470,166 | 10,183,094 |
|                                   | 29,492,908 | 24,902,859 |

The property management fee is inclusive of permissible discount in accordance with the Valuers, Appraisers and Estate Agents Act, 1981 and reimbursable site staff cost.



# NOTES TO THE FINANCIAL STATEMENTS

31 December 2016  
cont'd

## 7. FINANCE INCOME

|  | 2016<br>RM | 2015<br>RM |
|--|------------|------------|
| <b>Realised:</b>                                   |            |            |
| Interest income on fixed deposit                   | 1,350,513  | 777,930    |
| Interest income on lease receivable                | 271,227    | 131,307    |
| Late payment interest charged to tenants           | 33,977     | 18,247     |
| <b>Unrealised:</b>                                 |            |            |
| Amortisation of deferred lease income (Note 20(c)) | 727,906    | 663,712    |
|  | 2,383,623  | 1,591,196  |

## 8. MANAGER'S FEES

|                 | 2016<br>RM | 2015<br>RM |
|-----------------|------------|------------|
| Base fee        | 6,558,760  | 5,794,301  |
| Performance fee | 3,118,487  | 2,759,449  |
|                 | 9,677,247  | 8,553,750  |

The Manager is entitled under the Trust Deed to a base fee of 0.4% per annum of the gross asset value, payable monthly in arrears and a performance fee of 3% per annum on the net investment income, payable semi-annually in arrears.

The Manager is also entitled under the Trust Deed to an acquisition fee of 1% of the acquisition value of any asset, being authorised investments, acquired by MQREIT and divestment fee of 0.5% of the disposal value of any asset divested by MQREIT.

During the financial year ended 31 December 2016, the Manager was entitled to an acquisition fee of RM6,784,000 (inclusive of 6% Goods & Service Tax) in respect of the acquisition of Menara Shell. The acquisition fee was capitalised as part of the carrying amount of the investment properties (as disclosed in Note 15).

The Manager's remuneration is accrued and paid in accordance with the Trust Deed.

During the financial year, the Manager did not receive any soft commission (such as goods or services) from its broker, by virtue of transaction conducted by MQREIT.

## 9. TRUSTEE'S FEE

Trustee's fee accrued to the Trustee for the financial year ended 31 December 2016 amounted to RM486,842 (2015: RM436,003).

Trustee's fee is payable to the Trustee, which is computed at 0.03% per annum on the first RM2.5 billion of the gross asset value and 0.02% per annum on the gross asset value in excess of RM2.5 billion, payable monthly in arrears.

# NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

cont'd

## 10. FINANCE COSTS

|   | 2016<br>RM | 2015<br>RM |
|---|------------|------------|
| <b>Realised:</b>  |            |            |
| Accretion of interest expense   | 1,872,859  | 5,251,149  |
| Amortisation of transaction costs incurred to obtain Commercial Papers ("CPs")/<br>Medium Term Notes ("MTNs") | 389,373    | 482,444    |
| Amortisation of transaction costs incurred to obtain Term Loan  | 523,233    | 232,283    |
| Annual CPs/MTNs Programme expense   | 394,420    | 351,998    |
| Loss/(gain) on interest rate swap arrangements  | 41,355     | (445,470)  |
| Interest expense on CPs   | 15,009,456 | 12,415,852 |
| Interest expense on MTNs  | 2,971,616  | 2,940,000  |
| Interest expense on Term Loan   | 11,177,170 | 6,755,342  |
| <b>Unrealised:</b>  |            |            |
| Unwinding of discount on security deposits  | 656,630    | 663,712    |
|   | 33,036,112 | 28,647,310 |

## 11. INCOME TAX EXPENSE

Pursuant to Section 61A of the Income Tax Act 1967, the income of a REIT would be exempted from income tax provided that the REIT distributes 90% or more of its total income for the year. If the REIT is not able to meet the 90% distribution criteria, the entire taxable income of the REIT would be subject to income tax.

As MQREIT has paid and declared income distribution of more than 90% of its total income to unitholders, the total income of MQREIT for the year of assessment 2016 shall be exempted from tax.

A reconciliation of income tax expense applicable to income before taxation at the statutory income tax rate to income tax expense at the effective income tax rate of MQREIT for the financial years ended 31 December 2016 and 2015 is as follows:

|  | 2016<br>RM   | 2015<br>RM   |
|--|--------------|--------------|
| Income before taxation                                 | 62,770,042   | 60,698,000   |
| Tax at Malaysian statutory tax rate of 24% (2015: 25%) | 15,064,810   | 15,174,500   |
| Income not subject to taxation                         | (14,494,273) | (13,435,721) |
| Unrealised income not subject to tax                   | (867,379)    | (1,669,344)  |
| Exempt income not subject to tax                       | (324,123)    | (343,166)    |
| Expenses not deductible for tax purposes               | 620,965      | 273,731      |
| Income tax expense for the year                        | -            | -            |

# NOTES TO THE FINANCIAL STATEMENTS

31 December 2016  
cont'd

## 12. EARNINGS PER UNIT ("EPU")

- (a) EPU after manager's fees is based on net income for the year of RM62,770,042 (2015: RM60,698,000) divided by the weighted average number of units in circulation during the year of 672,490,809 (2015: 595,983,740).
- (b) EPU before manager's fees is based on net income for the year of RM72,447,289 (2015: RM69,251,750) after adding back manager's fees of RM9,677,247 (2015: RM8,553,750) divided by the weighted average number of units in circulation during the year of 672,490,809 (2015: 595,983,740).
- (c) EPU after manager's fees (realised) is based on realised net income for the year of RM59,155,963 (2015: RM54,020,625) divided by the weighted average number of units in circulation during the year of 672,490,809 (2015: 595,983,740).
- (d) EPU before manager's fees (realised) is based on realised net income for the year of RM68,833,210 (2015: RM62,574,375) after adding back manager's fees of RM9,677,247 (2015: RM8,553,750) divided by the weighted average number of units in circulation during the year of 672,490,809 (2015: 595,983,740).

## 13. DISTRIBUTION TO UNITHOLDERS

Distribution to the unitholders is from the following sources:

|   | 2016<br>RM   | 2015<br>RM   |
|---|--------------|--------------|
| Revenue (realised) (Note 5)               | 131,786,756  | 115,174,498  |
| Finance income (realised) (Note 7)        | 1,655,717    | 927,484      |
| Gain on divestment of investment property | -            | 594,734      |
|   | 133,442,473  | 116,696,716  |
| Less: Total expenses (realised)           | (74,286,510) | (62,676,091) |
|   | 59,155,963   | 54,020,625   |
| Distribution to unitholders               | 55,423,728   | 50,919,471   |
| Gross distribution per unit (sen) *       | 8.38         | 8.47         |

\* Income distribution to resident individuals, non-resident individuals, resident institutional investors, non-resident institutional investors and non-resident companies are subject to withholding tax as follows:

|   | Withholding tax rate |      |
|---|----------------------|------|
|   | 2016                 | 2015 |
| Resident and non-resident individuals             | 10%                  | 10%  |
| Resident and non-resident institutional investors | 10%                  | 10%  |
| Resident companies (flow through)                 | 0%                   | 0%   |
| Non-resident companies                            | 24%                  | 25%  |

# NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

cont'd

## 14. PLANT AND EQUIPMENT

|  | Plant and<br>machinery<br>RM | Office<br>equipment<br>RM | Furniture<br>and fittings<br>RM | Total<br>RM    |
|--|------------------------------|---------------------------|---------------------------------|----------------|
| <b>At 31 December 2016</b>                 |                              |                           |                                 |                |
| <b>Cost</b>                                |                              |                           |                                 |                |
| At 1 January 2016                          | 6,000                        | 269,452                   | 19,400                          | 294,852        |
| Additions                                  | -                            | 47,270                    | -                               | 47,270         |
| At 31 December 2016                        | 6,000                        | 316,722                   | 19,400                          | 342,122        |
| <b>Accumulated depreciation</b>            |                              |                           |                                 |                |
| At 1 January 2016                          | 5,998                        | 32,873                    | 19,399                          | 58,270         |
| Depreciation charge for the financial year | -                            | 58,166                    | -                               | 58,166         |
| At 31 December 2016                        | 5,998                        | 91,039                    | 19,399                          | 116,436        |
| <b>Net carrying amount</b>                 | <b>2</b>                     | <b>225,683</b>            | <b>1</b>                        | <b>225,686</b> |
| <b>At 31 December 2015</b>                 |                              |                           |                                 |                |
| <b>Cost</b>                                |                              |                           |                                 |                |
| At 1 January 2015                          | 6,000                        | 36,452                    | 19,400                          | 61,852         |
| Additions                                  | -                            | 233,000                   | -                               | 233,000        |
| At 31 December 2015                        | 6,000                        | 269,452                   | 19,400                          | 294,852        |
| <b>Accumulated depreciation</b>            |                              |                           |                                 |                |
| At 1 January 2015                          | 5,998                        | 21,773                    | 16,705                          | 44,476         |
| Depreciation charge for the financial year | -                            | 11,100                    | 2,694                           | 13,794         |
| At 31 December 2015                        | 5,998                        | 32,873                    | 19,399                          | 58,270         |
| <b>Net carrying amount</b>                 | <b>2</b>                     | <b>236,579</b>            | <b>1</b>                        | <b>236,582</b> |

## 15. INVESTMENT PROPERTIES

|   | 2016<br>RM    | 2015<br>RM    |
|---|---------------|---------------|
| At 1 January  | 1,569,800,000 | 837,700,000   |
| Additions from acquisition                                    | 640,000,000   | 740,000,000   |
| Capital expenditure for acquisition during the financial year | 7,411,104     | 8,920,867     |
| Additions from assets enhancement                             | 1,246,093     | 3,001,758     |
| Fair value adjustments  | 3,542,803     | 6,677,375     |
| Divestment of investment property                             | -             | (26,500,000)  |
| At 31 December  | 2,222,000,000 | 1,569,800,000 |

# NOTES TO THE FINANCIAL STATEMENTS

31 December 2016  
cont'd

## 15. INVESTMENT PROPERTIES (cont'd)

The breakdown of investment properties is as follows:

| Description of properties   | Date of acquisition | Cost of investment<br>RM'000 | Market value/<br>net carrying<br>amount as at<br>31 December<br>2016<br>RM'000 | % of<br>NAV | Market value/<br>net carrying<br>amount as at<br>31 December<br>2015<br>RM'000 |
|-----------------------------|---------------------|------------------------------|--|-------------|--|
| <u>Commercial buildings</u> |                     |                              |  |             |  |
| Quill Building 1            |                     |                              |  |             |  |
| - DHL 1                     | 20-Nov-06           | 109,100                      | 126,500  | 9.30        | 126,000  |
| Quill Building 4            |                     |                              |  |             |  |
| - DHL 2                     | 20-Nov-06           |                              |  |             |  |
| Quill Building 2            |                     |                              |  |             |  |
| - HSBC                      | 20-Nov-06           | 107,500                      | 121,700  | 8.95        | 120,700  |
| Quill Building 3            |                     |                              |  |             |  |
| - BMW                       | 20-Nov-06           | 59,400                       | 76,500   | 5.63        | 75,500   |
| Wisma Technip               | 3-Sep-07            | 125,000                      | 173,000  | 12.72       | 172,000  |
| Part of Plaza Mont' Kiara   | 3-Sep-07            | 90,000                       | 116,000  | 8.53        | 114,000  |
| Quill Building 5            |                     |                              |  |             |  |
| - IBM                       | 14-Mar-08           | 43,000                       | 45,300   | 3.33        | 45,200   |
| Tesco Building, Penang      | 7-Nov-08            | 132,000                      | 140,000  | 10.30       | 140,000  |
| Platinum Sentral            | 30-Mar-15           | 740,000                      | 750,000  | 55.16       | 750,000  |
| Menara Shell                | 22-Dec-16           | 640,000                      | 648,000  | 47.66       | -  |
| <u>Industrial building</u>  |                     |                              |  |             |  |
| Quill Building 8            |                     |                              |  |             |  |
| - DHL XPJ                   | 25-Mar-08           | 28,800                       | 25,000   | 1.84        | 26,400   |
|                             |                     | 2,074,800                    | 2,222,000  |             | 1,569,800  |

On 14 August 2008, the respective pieces of the land on which QB1 and QB4 are situated have been amalgamated pursuant to the conditions imposed by the SC during the initial public offering of MQREIT. As such, the valuations for QB1 and QB4 have since been carried out based on the amalgamated properties.

Investment properties are stated at fair value, which are determined based on valuations performed by 2 external valuers, namely Nawawi Tie Leung Property Consultants Sdn. Bhd., and CH Williams Talhar & Wong Sdn. Bhd.; independent firms of professional valuer, registered with the Board of Valuers, Appraisers & Estate Agents Malaysia using the investment method of valuation.

MQREIT acquired Menara Shell on 22 December 2016, with the acquisition price of RM640 million of which the purchase consideration was settled via issuance of new MQREIT's units and private placement as disclosed in Note 22. Capital expenditure of RM7,411,104, including acquisition fees paid to manager of RM6,400,000, was incurred for the acquisition of Menara Shell during the financial year ended 31 December 2016.

Investment properties with net carrying amount totalling RM2,145,500,000 (2015: RM1,494,300,000) are pledged as securities for borrowings as disclosed in Note 21.

# NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

cont'd

## 15. INVESTMENT PROPERTIES (cont'd)

The investment properties are carried at a Level 3 fair value measurement hierarchy as defined in Note 3.20. There have been no transfers between Level 1, Level 2 and Level 3 during the financial year ended 31 December 2016 and 31 December 2015.

The following table shows the valuation techniques used in the determination of fair values within Level 3, as well as the significant unobservable inputs used in the valuation models.

| Valuation technique             | Significant unobservable inputs   | Range      |            | Inter-relationship between significant unobservable inputs and fair value measurement |
|---------------------------------|-----------------------------------|------------|------------|---|
|                                 |                                   | 2016       | 2015       |   |
| Investment method (refer below) | <b>Office:</b>                    |            |            | The estimated fair value would increase/(decrease) if:                                |
|                                 | Market rental rate (RM/psf/month) |            |            |   |
|                                 | - Term                            | 2.0 - 12.7 | 2.0 - 11.1 | - expected market rental growth were higher/(lower)                                   |
|                                 | - Reversion                       | 2.2 - 11.0 | 2.0 - 10.0 | - expected market rental growth were higher/(lower)                                   |
|                                 | Outgoings (RM/psf/month)          |            |            |   |
|                                 | - Term                            | 0.3 - 2.1  | 0.7 - 1.8  | - expected inflation rate were lower/(higher)   |
|                                 | - Reversion                       | 0.3 - 2.1  | 0.7 - 1.8  | - expected inflation rate were lower/(higher)   |
|                                 | Void rate (%)                     | 5.0 - 10.0 | 5.0 - 10.0 | - void rate were lower/(higher)   |
|                                 | Term yield (%)                    | 5.5 - 6.8  | 5.5 - 6.8  | - term yield rate were lower/(higher)   |
|                                 | Reversionary yield (%)            | 6.3 - 6.8  | 6.3 - 6.8  | - reversionary yield were lower/(higher)  |
| Investment method (refer below) | <b>Retail:</b>                    |            |            | The estimated fair value would increase/(decrease) if:                                |
|                                 | Market rental rate (RM/psf/month) |            |            |   |
|                                 | - Term                            | 1.6 - 16.5 | 1.6 - 16.5 | - expected market rental growth were higher/(lower)                                   |
|                                 | - Reversion                       | 1.6 - 16.5 | 1.6 - 16.5 | - expected market rental growth were higher/(lower)                                   |
|                                 | Outgoings (RM/psf/month)          |            |            |   |
|                                 | - Term                            | 0.3 - 1.8  | 0.3 - 1.8  | - expected inflation rate were lower/(higher)   |
|                                 | - Reversion                       | 0.3 - 1.9  | 0.3 - 1.9  | - expected inflation rate were lower/(higher)   |
|                                 | Void rate (%)                     | 5.0 - 15.0 | 5.0 - 10.0 | - void rate were lower/(higher)   |
|                                 | Term yield (%)                    | 5.8 - 6.8  | 5.8 - 6.8  | - term yield rate were lower/(higher)   |
|                                 | Reversionary yield (%)            | 6.3 - 6.8  | 6.3 - 6.8  | - reversionary yield were lower/(higher)  |

Investment method entails the capitalisation of the net rent from a property. Net rent is the residue of gross annual rent less annual expenses (outgoings) required to sustain the rent with allowance for void and management fees.



# NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

cont'd

## 16. DERIVATIVE ASSETS/(LIABILITIES)

|                                    | Contract/<br>notional amount<br>RM | Fair value of<br>derivatives assets/<br>(liabilities) |            |
|------------------------------------|------------------------------------|---|------------|
|                                    |                                    | 2016<br>RM  | 2015<br>RM |
| <b>Non-current</b>                 |                                    |   |            |
| Interest rate swap (Note 32 (iii)) | 139.5 million                      | (479,896)   | 772,358    |
| Interest rate swap (Note 32 (iv))  | 139.5 million                      | (503,323)   | 821,866    |
|                                    |                                    | (983,219)   | 1,594,224  |
| <b>Current</b>                     |                                    |   |            |
| Interest rate swap (Note 32 (i))   | 65 million                         | -   | 325,423    |
| Interest rate swap (Note 32 (ii))  | 65 million                         | -   | 360,834    |
|                                    |                                    | -   | 686,257    |

MQREIT entered into interest rate swap transactions to manage the risks associated with interest rate movement as disclosed in Note 32. The derivatives figures were obtained with reference to mark-to-market from reputable financial institutions as at the reporting date.

## 17. LEASE RECEIVABLES

|                    | 2016<br>RM | 2015<br>RM |
|--------------------|------------|------------|
| <b>Non-current</b> |            |            |
| Lease receivables  | 2,745,750  | 2,000,864  |
| <b>Current</b>     |            |            |
| Lease receivables  | 692,759    | 409,684    |

MQREIT entered into a finance lease arrangement with a tenant (QB3) to part finance RM1.5 million of fit-out costs upon the renewal of tenancy agreement for another 7 years. The amount will be recovered through the top up rentals cumulatively amounted to RM1.9 million (at the approximate internal rate of return of 10.7% per annum).

In previous year, MQREIT entered into a similar finance lease arrangement with QB3 to part finance RM2.6 million of fit-out costs upon the renewal of tenancy agreement for another 10 years. The amount will be recovered through the top up rentals cumulatively amounted to RM3.5 million (at the approximate internal rate of return of 10.4% per annum).

# NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

cont'd

## 18. TRADE AND OTHER RECEIVABLES

|  | Note | 2016<br>RM | 2015<br>RM |
|--|------|------------|------------|
| <b>Current</b>                           |      |            |            |
| <b>Trade receivables</b>                 |      |            |            |
| Trade receivables                        |      | 3,234,506  | 2,145,373  |
| Less: Allowance for impairment           |      | (347,639)  | (67,372)   |
| Trade receivables, net                   | (a)  | 2,886,867  | 2,078,001  |
| <b>Other receivables</b>                 |      |            |            |
| Deposits                                 |      | 13,721,853 | 2,389,944  |
| Prepayments                              |      | 920,084    | 895,609    |
| Sundry receivables                       | (b)  | 97,306     | 284,572    |
|  |      | 14,739,243 | 3,570,125  |
| Total trade and other receivables        |      | 17,626,110 | 5,648,126  |
| Less: Prepayments                        |      | (920,084)  | (895,609)  |
| Add: Cash and cash equivalents (Note 19) |      | 49,817,906 | 40,469,910 |
| Total loans and receivables              |      | 66,523,932 | 45,222,427 |

### (a) Trade receivables

Trade receivables are non interest-bearing and are generally on 7 to 30 days term (2015: 7 to 30 days term). They are recognised at the original invoice amounts which represent their fair values on initial recognition.

Concentration of credit risk relating to trade receivables arises mainly due to majority of MQREIT's properties that are single-tenanted. However, the risk is mitigated by the tenants which are engaged in diversified businesses and are of good quality and strong credit standing.

#### Ageing analysis of trade receivables

The ageing analysis of MQREIT's trade receivables is as follows:

|   | 2016<br>RM | 2015<br>RM |
|---|------------|------------|
| Neither past due nor impaired           | 2,494,323  | 1,672,495  |
| 1 - 30 days past due not impaired       | 218,878    | 111,065    |
| 31 - 60 days past due not impaired      | 23,425     | 156,958    |
| 61 - 90 days past due not impaired      | 45,818     | 70,175     |
| More than 90 days past due not impaired | 104,423    | 67,308     |
|   | 392,544    | 405,506    |
|   | 2,886,867  | 2,078,001  |
| Impaired                                | 347,639    | 67,372     |
|   | 3,234,506  | 2,145,373  |

# NOTES TO THE FINANCIAL STATEMENTS

31 December 2016  
cont'd

## 18. TRADE AND OTHER RECEIVABLES (cont'd)

### (a) Trade receivables (cont'd)

#### Receivables that are neither past due nor impaired

Trade receivables that are neither past due nor impaired are creditworthy debtors with good payment records with MQREIT.

#### Receivables that are past due but not impaired

MQREIT have trade receivables amounted to RM392,544 (2015: RM405,506) that are past due at the reporting date but not impaired.

Trade receivables from tenants are secured by security deposits.

#### Receivables that are impaired

MQREIT's trade receivables that are individually impaired at the reporting date and the movement of the allowance accounts used to record the impairment are as follows:

|   | 2016<br>RM | 2015<br>RM |
|---|------------|------------|
| Trade receivables - nominal amounts<br>(after offsetting security deposits) | 347,639    | 67,372     |
| Less: Allowance for impairment  | (347,639)  | (67,372)   |
|   | -          | -          |

The movement of allowance accounts is as follows:

|                               | 2016<br>RM | 2015<br>RM |
|-------------------------------|------------|------------|
| At 1 January                  | 67,372     | -          |
| Charge for the financial year | 280,267    | 67,372     |
| At 31 December                | 347,639    | 67,372     |

The Manager assesses at each reporting date whether there is any objective evidence that the trade receivable is impaired. The Manager makes an allowance for impairment after considering factors such as the probability of insolvency or significant financial difficulties of the debtor and default or significant delay in payments.

### (b) Sundry receivables

MQREIT has no significant concentration of credit risk that may arise from exposures to a single debtor or group of debtors relating to sundry receivables.

# NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

cont'd

## 19. DEPOSITS, CASH AND BANK BALANCES

|  | 2016<br>RM  | 2015<br>RM  |
|--|-------------|-------------|
| Deposits with licensed financial institutions                                    | 43,779,046  | 38,636,273  |
| Cash on hand and at banks  | 10,272,235  | 6,227,690   |
| Total cash and bank balances   | 54,051,281  | 44,863,963  |
| Less:  |             |             |
| Deposits with licensed financial institution with maturity of more than 3 months | -           | (449,128)   |
| Debt service reserves accounts pledged   | (4,233,375) | (3,944,925) |
| Cash and cash equivalents  | 49,817,906  | 40,469,910  |

Included in deposits with licensed financial institutions is an amount of RM4,233,375 (2015: RM3,944,925) maintained in the debt service reserves accounts which are assigned for the borrowings as disclosed in Note 21.

Included in cash on hand and at banks is an amount of RM9,217,933 (2015: RM5,238,102) maintained in the revenue and operations accounts which are assigned for the borrowings as disclosed in Note 21.

The weighted average effective interest rate of deposits at the reporting date is as follows:

|   | 2016<br>% | 2015<br>% |
|---|-----------|-----------|
| Deposits with licensed financial institutions (per annum) | 3.33      | 3.87      |

Deposits with licensed financial institutions have an average maturity ranging from 14 to 92 days (2015: 28 to 183 days).

## 20. TRADE AND OTHER PAYABLES

|                           | Note | 2016<br>RM | 2015<br>RM |
|---------------------------|------|------------|------------|
| <b>Non-current</b>        |      |            |            |
| <b>Other payables</b>     |      |            |            |
| Deferred lease income     | (c)  | 3,164,524  | 1,608,507  |
| <b>Current</b>            |      |            |            |
| <b>Trade payables</b>     |      |            |            |
| Trade payables            | (a)  | 7,612,148  | 2,329,859  |
| Trade accruals            |      | 4,658,490  | 3,055,882  |
|                           |      | 12,270,638 | 5,385,741  |
| <b>Other payables</b>     |      |            |            |
| Amount due to the Manager | (b)  | 8,960,383  | 2,699,250  |
| Other payables            | (a)  | 608,686    | 752,436    |
| Accruals                  |      | 5,566,855  | 4,737,412  |
| Deferred lease income     | (c)  | 943,553    | 671,662    |
|                           |      | 16,079,477 | 8,860,760  |
|                           |      | 28,350,115 | 14,246,501 |

# NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

cont'd

## 20. TRADE AND OTHER PAYABLES (cont'd)

|   | Note | 2016<br>RM  | 2015<br>RM  |
|---|------|-------------|-------------|
| Total trade and other payables                        |      | 31,514,639  | 15,855,008  |
| Add: Borrowings (Note 21)                             |      | 851,566,974 | 689,721,862 |
| Add: Security deposits                                |      | 26,130,815  | 15,807,971  |
| Total financial liabilities carried at amortised cost |      | 909,212,428 | 721,384,841 |

### (a) Trade and other payables

Trade and other payables are normally settled between 30 to 90 days (2015: 30 to 90 days).

### (b) Amount due to the Manager

Amount due to the Manager is unsecured, non-interest bearing and repayable on demand.

### (c) Deferred lease income

Deferred lease income relates to the difference between the fair value of non-current security deposits recognised on initial recognition and the nominal amount received, which is amortised on a straight-line basis over the lease terms ranging from 1 to 12 years (2015: 1 to 11 years).

The movement of deferred lease income (current and non-current) is as follows:

|                                       | 2016<br>RM | 2015<br>RM |
|---------------------------------------|------------|------------|
| At 1 January                          | 2,280,169  | 1,315,494  |
| Additions during the financial year   | 2,555,814  | 1,628,387  |
| Recognised in profit or loss (Note 7) | (727,906)  | (663,712)  |
| At 31 December                        | 4,108,077  | 2,280,169  |
| <b>Representing:</b>                  |            |            |
| Current                               | 943,553    | 671,662    |
| Non-current                           | 3,164,524  | 1,608,507  |
|                                       | 4,108,077  | 2,280,169  |

# NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

cont'd

## 21. BORROWINGS

|   | Note | 2016<br>RM  | 2015<br>RM  |
|---|------|-------------|-------------|
| <b>Non-current</b>  |      |             |             |
| <b>Secured:</b>   |      |             |             |
| Fixed Rate Term Loan Facility of up to RM150 million              | (b)  | 116,671,400 | 116,475,715 |
| Senior CPs/MTNs Programme of up to RM290 million                  | (c)  | 275,506,195 | 274,930,520 |
| Fixed Rate Subordinated Term Loan Facility of up to RM250 million | (c)  | 109,548,075 | 109,405,371 |
| CPs/MTNs Programme of up to RM3 billion                           | (d)  | 160,737,129 | -           |
|   |      | 662,462,799 | 500,811,606 |

### Current

#### Secured:

|   |     |             |             |
|---|-----|-------------|-------------|
| CPs/MTNs Programme of up to RM270 million | (a) | 189,104,175 | 188,910,256 |
|---|-----|-------------|-------------|

The maturities of MQREIT's borrowings as at 31 December 2016 are as follows:

|  | 2016<br>RM  | 2015<br>RM  |
|--|-------------|-------------|
| Less than 1 year                       | 189,104,175 | 188,910,256 |
| More than 1 year and less than 5 years | 662,462,799 | 500,811,606 |
|  | 851,566,974 | 689,721,862 |

Other information on financial risks on borrowings are disclosed in Note 36(a) and 36(c).

#### (a) CPs/MTNs Programme of up to RM270 million ("RM270 million Programme")

The RM270 million Programme is analysed as follows:

|   | 2016<br>RM  | 2015<br>RM  |
|---|-------------|-------------|
| Face value of CPs/MTNs issued                     | 190,000,000 | 195,000,000 |
| Discount  | (2,547,501) | (2,814,219) |
| Cash proceeds                                     | 187,452,499 | 192,185,781 |
| Accretion of interest expense (Note 10)           | 1,651,676   | 1,812,828   |
|   | 189,104,175 | 193,998,609 |
| Transaction costs carried forward                 | (88,353)    | (232,221)   |
| Amortisation of transaction costs during the year | 88,353      | 162,200     |
| Transaction costs on CPs issued during the year   | -           | (18,332)    |
|   | 189,104,175 | 193,910,256 |
| Redeemed on 3 June 2015                           | -           | (5,000,000) |
|   | 189,104,175 | 188,910,256 |



# NOTES TO THE FINANCIAL STATEMENTS

31 December 2016  
cont'd

## 21. BORROWINGS (cont'd)

### (a) CPs/MTNs Programme of up to RM270 million ("RM270 million Programme") (cont'd)

On 18 July 2011, MQREIT through its SPE, Kinabalu Capital Sdn. Bhd. ("Kinabalu") established a CPs/MTNs Programme of up to RM270 million ("RM270 million Programme") for 5 years.

CPs totalling RM12 million and MTNs totalling RM60 million were issued on 5 September 2011, the proceeds of which were utilised towards the settlement of the RM80 million 5-year Term Loan Facilities.

CPs totalling RM118 million were issued on 30 November 2011, the proceeds of which were utilised towards the settlement of the RM118 million of CPs outstanding under the RM118 million Programme which matured on 30 November 2011.

MQREIT had obtained Noteholders' approval to defer the maturity of the RM60 million MTNs, RM12 million CPs and RM118 million CPs for a tenure of 6 months, from the expected maturity of 5 September 2016 to 6 March 2017, for the purpose of refinancing the outstanding CPs and to coincide with the new expected maturity of the outstanding MTNs.

The CPs/MTNs outstanding as at 31 December 2016 are subject to interest at the following interest rates per annum as at the reporting date:

|                                 | 2016 | 2015 |
|---------------------------------|------|------|
|                                 | %    | %    |
| RM12 million nominal value CPs  | 3.93 | 4.26 |
| RM60 million nominal value MTNs | 4.90 | 4.90 |
| RM118 million nominal value CPs | 3.93 | 4.26 |

The interest rates for the CPs are subject to interest rate swap arrangements as disclosed in Note 32.

The RM270 million Programme is secured, inter-alia by the following:

- (i) Third party first legal charge by the Trustee over QB1, QB4, QB2 and Tesco, disclosed as investment properties in Note 15 (collectively, the "Secured Properties");
- (ii) First party debenture over all present and future assets of Kinabalu;
- (iii) An undertaking from the Manager:
  - (a) to deposit all rental income cashflows generated from the Secured Properties into the revenue accounts; and
  - (b) that it shall not declare any dividends/distributions to unitholders if:
    - an event of default has occurred under the Transaction Documents is continuing and has not been waived; or
    - the financial covenants are not met prior and after such distribution;
- (iv) First legal charge or assignment by the Trustee for the revenue accounts, operations accounts and a first party assignment by Kinabalu for the debt service reserves account;
- (v) Third party assignment of all the proceeds under the tenancy/lease agreements of the Secured Properties;
- (vi) Third party assignment over all rights and benefits under all the insurance policies in relation to the Secured Properties;

# NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

cont'd

## 21. BORROWINGS (cont'd)

### (a) CPs/MTNs Programme of up to RM270 million ("RM270 million Programme") (cont'd)

The RM270 million Programme is secured, inter-alia by the following: (cont'd)

- (vii) An irrevocable Power of Attorney granted by the Trustee in favour of the Security Agent to dispose the Secured Properties upon occurrence of a trigger event;
- (viii) First legal assignment over the REIT Trustee Financing Agreement entered into between Kinabalu and the Trustee for the advancement of fund from Kinabalu to the Trustee; and
- (ix) Third party first legal charge over the entire shares of Kinabalu.

### (b) Fixed Rate Term Loan Facility of up to RM150 million ("RM150 million Term Loan")

The RM150 million 5-year Term Loan Facilities are analysed as follows:

|   | 2016<br>RM  | 2015<br>RM  |
|---|-------------|-------------|
| Term loan drawdown                                | 117,000,000 | 117,000,000 |
| Transaction costs carried forward                 | (524,285)   | (720,892)   |
|   | 116,475,715 | 116,279,108 |
| Amortisation of transaction costs during the year | 195,685     | 196,607     |
|   | 116,671,400 | 116,475,715 |

On 18 July 2013, MQREIT through its SPE, Trusmadi Capital Sdn. Bhd. ("Trusmadi"), established a RM150 million Fixed Rate Term Loan Facility agreement for 5 years ("RM150 million Term Loan").

On 13 September 2013, Tranche 1 of the Facility of RM117 million at the interest rate of 4.60% per annum was drawdown to repay the RM117 million MTN outstanding under the RM134 million CP/MTN Programme which matured on 13 September 2013. Tranche 2 will be used for capital expenditure and investments at the Reference Malaysian Government Securities ("MGS") + 1.4% per annum.

The transaction costs relating to the programme are amortised over the tenure of the programme and are charged to profit or loss.

The RM150 million Term Loan is secured, inter-alia by the following:

- (i) Third party first legal charge over WT, QB8 and QB5, respectively disclosed as investment properties in Note 15 (collectively, the "Charged Properties");
- (ii) Third party legal assignment of the SPA for the acquisitions of part of PMK, respectively disclosed as investment properties in Note 15 (collectively, the "Assigned Properties");
- (iii) First party debenture over all present and future assets of Trusmadi;

# NOTES TO THE FINANCIAL STATEMENTS

31 December 2016  
cont'd

## 21. BORROWINGS (cont'd)

### (b) Fixed Rate Term Loan Facility of up to RM150 million ("RM150 million Term Loan") (cont'd)

The RM150 million Term Loan is secured, inter-alia by the following: (cont'd)

- (iv) An undertaking from the Manager:
  - (a) to deposit all income/insurance proceeds generated from the Charged and Assigned Properties (collectively, the "Secured Properties") into revenue accounts; and
  - (b) that it shall not declare any dividends/distributions to unitholders if:
    - an event of default has occurred under the Transaction Documents, is continuing and has not been waived; or
    - the financial covenants are not met prior and after such distribution;
- (v) First legal charge or third party assignment by the Trustee for the revenue accounts, operations accounts and a first party assignment by Trusmadi for the debt service reserves account;
- (vi) Third party legal assignment of all the proceeds under the tenancy/lease agreements of the Secured Properties;
- (vii) Third party assignment over all rights, title, interest and benefits under all the insurance policies in relation to the Secured Properties;
- (viii) First legal assignment over the REIT Trustee Financing Agreement entered into between Trusmadi and the Trustee; and
- (ix) Third party first legal charge over the entire shares of Trusmadi.

### (c) Senior CPs/MTNs Programme of up to RM290 million ("Senior CP/MTN Programme"), Junior CPs/MTNs Programme of up to RM450 million ("Junior CP/MTN Programme") and Fixed Rate Subordinated Term Loan Facility of up to RM250 million ("Fixed Rate Subordinated Term Loan")

|  | 2016<br>RM  | 2015<br>RM  |
|--|-------------|-------------|
| <b>Senior CP/MTN Programme</b>                           |             |             |
| Face value of CPs issued/rollover                        | 279,000,000 | 279,000,000 |
| Discount   | (2,650,194) | (2,949,298) |
| Cash proceeds  | 276,349,806 | 276,050,702 |
| Accretion of interest expense (Note 10)                  | 58,246      | 64,820      |
|  | 276,408,052 | 276,115,522 |
| Transaction costs carried forward/issued during the year | (1,185,002) | (1,505,246) |
| Amortisation of transaction costs during the year        | 283,145     | 320,244     |
|  | 275,506,195 | 274,930,520 |

# NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

cont'd

## 21. BORROWINGS (cont'd)

- (c) **Senior CPs/MTNs Programme of up to RM290 million ("Senior CP/MTN Programme"), Junior CPs/MTNs Programme of up to RM450 million ("Junior CP/MTN Programme") and Fixed Rate Subordinated Term Loan Facility of up to RM250 million ("Fixed Rate Subordinated Term Loan") (cont'd)**

|   | 2016<br>RM  | 2015<br>RM    |
|---|-------------|---------------|
| <b>Junior CP/MTN Programme</b>                    |             |               |
| Face value of CPs issued/rollover                 | -           | 140,000,000   |
| Discount  | -           | (3,373,501)   |
| Cash proceeds                                     | -           | 136,626,499   |
| Accretion of interest expense (Note 10)           | -           | 3,373,501     |
|   | -           | 140,000,000   |
| Redeemed on 30 September 2015                     | -           | (140,000,000) |
|   | -           | -             |
| <b>Fixed Rate Subordinated Term Loan</b>          |             |               |
| Term Loan drawdown                                | 110,000,000 | 110,000,000   |
| Transaction costs on Term Loan                    | (594,629)   | (630,305)     |
|   | 109,405,371 | 109,369,695   |
| Amortisation of transaction costs during the year | 142,704     | 35,676        |
|   | 109,548,075 | 109,405,371   |
| Total   | 385,054,270 | 384,335,891   |

On 13 March 2015, MQREIT through its SPE, Murud Capital Sdn. Bhd. ("Murud") established a RM290 million Senior CP/MTN Programme and Junior CP/MTN Programme of up to RM450 million for 5 years.

On 30 March 2015, RM279 million nominal values of Senior CPs were issued at an interest rate of 4.13% per annum. Junior CPs of RM140 million nominal values were issued at an interest rate of 4.78% per annum where the effective rate is 4.9% per annum. These Junior CPs had been redeemed on 30 September 2015 upon its maturity, and had been refinanced by a Fixed Rate Subordinated Term Loan of RM110 million at the interest rate of 4.9% per annum and balance via proceeds from disposal of QB10 and internal funds.

The CPs/Term Loan outstanding as at 31 December 2016 are subject to interest at the following interest rates per annum as at the reporting date:

|                                       | 2016<br>% | 2015<br>% |
|---------------------------------------|-----------|-----------|
| RM279 million nominal value CPs       | 3.81      | 4.24      |
| RM110 million nominal value Term Loan | 5.35      | 4.90      |

The interest rates for the CPs are subject to interest rate swap arrangements as disclosed in Note 32.

The transaction costs relating to the programmes are amortised over the tenure of the programmes and are charged to profit or loss.

# NOTES TO THE FINANCIAL STATEMENTS

31 December 2016  
cont'd

## 21. BORROWINGS (cont'd)

### (c) Senior CPs/MTNs Programme of up to RM290 million ("Senior CP/MTN Programme"), Junior CPs/MTNs Programme of up to RM450 million ("Junior CP/MTN Programme") and Fixed Rate Subordinated Term Loan Facility of up to RM250 million ("Fixed Rate Subordinated Term Loan") (cont'd)

The programmes are secured, inter-alia by the following:

- (i) A third party first ranking legal charge over Platinum Sentral, disclosed as investment properties in Note 15 ("Property");
- (ii) A first party first ranking debenture over all present and future assets of Murud;
- (iii) An irrevocable and unconditional undertaking from the Manager:
  - (a) to deposit all rental, deposits, other income, insurance claim proceeds in relation to the Property and any proceeds generated from the Property into the revenue account; and
  - (b) that it shall not declare any dividends/distributions to unitholders if:
    - an event of default has occurred under the Transaction Documents, is continuing and has not been waived or remedied, or following such declaration of dividends or distributions, an event of default would occur; or
    - the financial covenants are not met prior to and/or after such distribution;
- (iv) Third party legal assignment of the SPA entered into between MRCB Sentral Properties Sdn Bhd ("Vendor") and the REIT Trustee on behalf of MQREIT in respect of the Property ("SPA");
- (v) Assignment and charge over the Designated Accounts as follows:
  - (a) third party assignment and charge over the revenue account and operations account by the Trustee; and
  - (b) first party assignment and charge of the debt service reserves account by Murud;
- (vi) Third party legal assignment of all the proceeds under the tenancy/lease agreements of the Property and any part thereof;
- (vii) Third party legal assignment over all rights, title, interest and benefits under all the insurance policies in relation to the Property;
- (viii) An irrevocable Power of Attorney to be granted by the Trustee in favour of the Security Trustee to manage and dispose of the Property upon declaration of a trigger event;
- (ix) Legal assignment over the REIT Trustee Financing Agreement entered into between Murud and the Trustee;
- (x) Third party first ranking legal charge over 100% of the shares of Murud; and
- (xi) Any other securities deemed appropriate and mutually agreed between Murud and the Lead Arranger prior to execution of all the Transaction Documents.

# NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

cont'd

## 21. BORROWINGS (cont'd)

### (d) Commercial Papers Programme ("CP Programme") and Medium Term Notes Programme ("MTN Programme") with aggregate combined limit of RM3.0 billion in nominal value ("RM3 billion Programme")

|  | 2016<br>RM  |
|--|-------------|
| Face value of CPs issued                           | 164,000,000 |
| Discount   | (2,965,453) |
| Cash proceeds                                      | 161,034,547 |
| Accretion of interest expense (Note 10)            | 162,937     |
|  | 161,197,484 |
| Transaction costs on CP/MTN issued during the year | (468,146)   |
| Amortisation of transaction costs during the year  | 7,791       |
|  | 160,737,129 |

On 30 November 2016, MQREIT through its SPE, Kinabalu Capital Sdn. Bhd. ("Kinabalu") established a RM3.0 billion in nominal value of CP/MTN programme. The CP Programme shall have a legal tenure of seven (7) years from the date of the first issue of the CPs under the CP Programme, whereas the MTN Programme shall have a legal tenure of twenty (20) years from the date of the first issue of MTNs under the MTN Programme.

On 22 December 2016, RM144 million in nominal value of CPs and RM20 million in nominal value of MTNs out of the respective programme were issued at the interest rate of 4.13% p.a. and 4.30% p.a. respectively. The proceeds raised from the issuance were utilised to part-finance the acquisition of Menara Shell together with a 5-storey podium and a 4-storey basement car park.

The transaction costs relating to the programme are amortised over the tenure of the programme and are charged to profit or loss.

The RM3 billion Programme is secured, inter-alia by the following:

- (i) A third party first ranking legal charge over Menara Shell, disclosed as investment properties in Note 15 (the "Secured Property");
- (ii) An undertaking from the Manager:
  - (a) to deposit all rental cashflows, deposits, other income, and insurance claim proceeds in relation to the Secured Property and any proceeds generated from the Secured Property into the relevant revenue account; and
  - (b) that it shall not declare any dividends/distributions to unitholders, if:
    - an event of default and/or trigger event under the Relevant Issue has occurred and is continuing or will occur as a result of such payment or distribution; or
    - the financial covenants are not met prior to and/or after such distribution;
- (iii) First legal charge and assignment by the Trustee for the revenue accounts, operations accounts and a first party legal assignment by Kinabalu over the debt service reserve account of the Relevant Issue;
- (iv) Third party legal assignment of all the proceeds under the tenancy/lease agreements of the Secured Property and any part thereof;



# NOTES TO THE FINANCIAL STATEMENTS

31 December 2016  
cont'd

## 21. BORROWINGS (cont'd)

### (d) Commercial Papers Programme ("CP Programme") and Medium Term Notes Programme ("MTN Programme") with aggregate combined limit of RM3.0 billion in nominal value ("RM3 billion Programme") (cont'd)

The RM3 billion Programme is secured, inter-alia by the following: (cont'd)

- (v) Third party legal assignment over all rights, titles, interests and benefits in and under the insurance policies in relation to the Secured Property;
- (vi) An irrevocable Power of Attorney granted by the Trustee in favour of the Security Trustee to dispose the Secured Property upon occurrence of a trigger event;
- (vii) A legal assignment over the REIT Trustee Financing Agreement entered into between the Kinabalu; the Trustee and the Security Trustee for the provision of the inter-company loan from Kinabalu to the Trustee from the proceeds raised from the Relevant Issue; and
- (viii) Any other securities deemed appropriate and mutually agreed between the parties as stated in the Supplemental Terms and Conditions.

## 22. UNITHOLDERS' CAPITAL

|   | No. of units  |             |
|---|---------------|-------------|
|   | 2016          | 2015        |
| <b>Approved fund size:</b>  |               |             |
| At 1 January  | 700,000,000   | 490,131,000 |
| Increase in approved fund size                                    | 400,000,000   | 209,869,000 |
| At 31 December  | 1,100,000,000 | 700,000,000 |
| <b>Issued and fully paid:</b>                                     |               |             |
| At 1 January  | 661,381,000   | 390,131,000 |
| Issuance of new units on 30 March 2015                            | -             | 206,250,000 |
| Private placements of new units on 22 December 2016/30 March 2015 | 406,619,000   | 65,000,000  |
| At 31 December  | 1,068,000,000 | 661,381,000 |
|   | Amount        |             |
|   | 2016          | 2015        |
|   | RM            | RM          |
| <b>Issued and fully paid:</b>                                     |               |             |
| At 1 January  | 751,276,357   | 411,712,067 |
| Issuance of new units on 30 March 2015                            | -             | 264,000,000 |
| Private placements of new units on 22 December 2016/30 March 2015 | 487,942,800   | 78,000,000  |
| Expenses on issuance of new units/placements                      | (7,279,296)   | (2,435,710) |
| At 31 December  | 1,231,939,861 | 751,276,357 |

Private placement of 406,619,000 new units ("Placement Units") at the bookbuilding exercise of RM1.20 per unit, with the gross proceeds of RM487,942,800 were done as part of the purchase consideration for the acquisition of Menara Shell. The Placement Units were listed and quoted on the Main Market on Bursa Securities on 22 December 2016. With the listing of the Placement Units, the enlarged Units in circulation is 1,068,000,000 units.

# NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

cont'd

## 22. UNITHOLDERS' CAPITAL (cont'd)

In previous year, issuance of 206,250,000 new MQREIT's units at an issue price of RM1.28 per unit and private placement of 65,000,000 new units at RM1.20 per unit on 30 March 2015 were done as part of the purchase consideration for the acquisition of Platinum Sentral. The units were listed on the Main Market of Bursa Securities on 30 March 2015.

## 23. INVESTMENTS IN SPEs

Details of SPEs are as follows:

| Name of SPEs               | Country of incorporation | Principal activity                | Proportion of ownership interest |           |
|----------------------------|--------------------------|-----------------------------------|----------------------------------|-----------|
|                            |                          |                                   | 2016<br>%                        | 2015<br>% |
| Murud Capital Sdn. Bhd.    | Malaysia                 | Facilitating financing for MQREIT | 100                              | 100       |
| Trusmadi Capital Sdn. Bhd. | Malaysia                 | Facilitating financing for MQREIT | 100                              | 100       |
| Samwise Capital Sdn. Bhd.  | Malaysia                 | Facilitating financing for MQREIT | 100                              | 100       |
| Kinabalu Capital Sdn. Bhd. | Malaysia                 | Facilitating financing for MQREIT | 100                              | 100       |

All the above subsidiaries are audited by Ernst & Young, Malaysia.

## 24. COMMITMENTS

### (a) Capital commitments

Capital expenditure as at reporting date is as follows:

|   | 2016<br>RM | 2015<br>RM |
|---|------------|------------|
| Capital expenditure approved and contracted for investment properties | 2,166,139  | 3,160,527  |

### (b) Non-cancellable operating lease commitments

|  | 2016<br>RM  | 2015<br>RM  |
|--|-------------|-------------|
| <b>As lessor</b>                             |             |             |
| Future minimum rental receivable:            |             |             |
| Not later than 1 year                        | 161,860,683 | 115,537,962 |
| Later than 1 year but not later than 5 years | 447,598,415 | 223,294,837 |
| Later than 5 years                           | 390,004,230 | 132,798,544 |
|  | 999,463,328 | 471,631,343 |

MQREIT has entered into leases on its investment properties. The non-cancellable leases have remaining lease terms of between one to fifteen years (2015: between one to sixteen years).

# NOTES TO THE FINANCIAL STATEMENTS

31 December 2016  
cont'd

## 25. NET ASSET VALUE PER UNIT

The calculation of net asset value per unit is based on 1,068,000,000 units (2015: 661,381,000 units) in circulation as at 31 December 2016.

## 26. TRANSACTIONS WITH STOCKBROKING COMPANIES

No transactions with stockbroking companies were made during the financial year.

## 27. UNITHOLDINGS BY THE MANAGER

As at 31 December 2016 and 2015, the Manager did not hold any units in MQREIT.

## 28. UNITHOLDERS RELATED TO THE MANAGER

|  | MQREIT               |                      |  |  |                               |
|--|----------------------|----------------------|--|--|-------------------------------|
|  | No. of units<br>2016 | No. of units<br>2015 | Percentage<br>of total<br>units<br>2016<br>% | Percentage<br>of total<br>units<br>2015<br>% | Market<br>value<br>2016<br>RM |
| Malaysian Resources Corporation Berhad                   | 297,917,000          | 206,250,000          | 27.89  | 31.18  | 357,500,400                   |
| HLIB Nominee (Tempatan) Sdn. Bhd. for:                   |                      |                      |  |  |                               |
| Quill Properties Sdn. Bhd. ("QPSB")                      | 45,997,000           | 45,997,000           | 4.31   | 6.95   | 55,196,400                    |
| Quill Land Sdn. Bhd. ("QLSB")                            | 48,767,000           | 48,767,000           | 4.57   | 7.37   | 58,520,400                    |
| Quill Estates Sdn. Bhd. ("QESB")                         | 22,276,000           | 22,276,000           | 2.09   | 3.37   | 26,731,200                    |
|  | 414,957,000          | 323,290,000          | 38.85  | 48.88  | 497,948,400                   |
| The Manager's directors' direct unitholding in MQREIT:   |                      |                      |  |  |                               |
| Dato' Dr. Low Moi Ing, J.P.                              | 50,000               | 50,000               | 0.00   | 0.01   | 60,000                        |
| Dato' Michael Ong Leng Chun                              | 55,000               | 55,000               | 0.01   | 0.01   | 66,000                        |
| Datuk Dr. Mohamed Arif Bin Nun                           | -                    | 10,000               | -  | *  | -                             |
| The Manager's directors' indirect unitholding in MQREIT: |                      |                      |  |  |                               |
| Dato' Dr. Low Moi Ing, J.P. (a)                          | 117,040,000          | 117,040,000          | 10.96  | 17.70  | 140,448,000                   |
| Dato' Michael Ong Leng Chun (b)                          | 117,040,000          | 117,040,000          | 10.96  | 17.70  | 140,448,000                   |

(a) Deemed interest by virtue of her direct shareholding in QPSB, QLSB and QESB.

(b) Deemed interest by virtue of his direct shareholding in QPSB, QLSB and QESB.

\* represents 0.001%

The market value of the units held by the unitholders related to the Manager is determined by using the closing market value of MQREIT as at 31 December 2016 of RM1.20 per unit (2015: RM1.08 per unit).

# NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

cont'd

## 29. PORTFOLIO TURNOVER RATIO

|  | 2016 | 2015 |
|--|------|------|
| Portfolio turnover ratio ("PTR") [(times)] | 0.34 | 0.46 |

PTR is the ratio of the average of acquisitions and disposals of investments for the period to the average net asset value of MQREIT for the period calculated on a monthly basis.

Since the basis of calculating the PTR can vary among the REITs, there is no sound basis for providing an accurate comparison of MQREIT against other REITs.

## 30. MANAGEMENT EXPENSE RATIO

|                                  | 2016<br>% | 2015<br>% |
|----------------------------------|-----------|-----------|
| Management expense ratio ("MER") | 1.33      | 1.19      |

MER is calculated based on the total fees including manager's fees, trustee's fee, valuation fee and administration expenses charged to MQREIT divided by the average net asset value during the year.

Since the average net asset value of MQREIT is calculated on a monthly basis, the MER of MQREIT may not be comparable to the MER of other REITs or unit trusts which may use a different basis of calculation.

## 31. RELATED PARTIES TRANSACTIONS

|   | 2016<br>RM  | 2015<br>RM |
|---|-------------|------------|
| (i) Tenancy agreement with Prema Bonanza Sdn. Bhd.                          | 795,728     | 811,853    |
| (ii) Car park income from Semasa Parking Sdn. Bhd. - Platinum Sentral       | 2,002,304   | 1,426,669  |
| (iii) Car park income from Semasa Parking Sdn. Bhd. - Menara Shell          | 50,000      | -          |
| (iv) Auxiliary police services with Semasa Sentral Sdn. Bhd.                | 594,135     | 428,220    |
| (v) Supply of chilled water services with Semasa District Cooling Sdn. Bhd. | 3,080,606   | 2,281,709  |
| (vi) Encroachment of land at Platinum Sentral                               | 67,078      | 67,078     |
| (vii) Acquisition of Menara Shell from 348 Sentral Sdn. Bhd.                | 640,000,000 | -          |
| (viii) Toilet refurbishment works (final claim)                             | 107,910     | -          |
| (ix) Fit-out works for QB3  | -           | 2,600,000  |
| (x) Asset enhancement for WT  | -           | 176,536    |
| (xi) Toilet refurbishment work for QB2                                      | -           | 1,532,654  |
| (xii) Ad-hoc repair work for QB2  | -           | 7,130      |
|   | 646,697,761 | 9,331,849  |

# NOTES TO THE FINANCIAL STATEMENTS

31 December 2016  
cont'd

## 31. RELATED PARTIES TRANSACTIONS (cont'd)

Details of material contract with the related parties other than as disclosed in Note 8 are as follows:

- (i) Renewed tenancy agreement of the premises known as Unit G02-G04, Ground Floor at Platinum Sentral to Prema Bonanza Sdn. Bhd. ("PBSB") for a term of one (1) year with an option to renew for a further term of one (1) year. The total rental received for the financial year ended 31 December 2016 amounted to RM795,728.

PBSB was incorporated in Malaysia under the Companies Act, 1965 on 11 December 2006 and its principal activity is property development.

PBSB is a 51% subsidiary of Malaysian Resources Corporation Berhad ("MRCB"), which is a major unitholder of MQREIT and a major shareholder of the Manager. The balance 49% shareholding in PBSB is held by Quill Residences Sdn. Bhd. ("QRSB"), a member of the Quill Group, which is also related to MQREIT's major unitholders namely QPSB, QLSB, QESB as well as Quill Resources Holding Sdn. Bhd. ("QRHSB") which is a major shareholder of the Manager, MRCB Quill Management Sdn. Bhd. ("MQM").

- (ii) Car park operation agreement with Semasa Parking Sdn. Bhd. ("SPSB") to appoint SPSB as the sole car park operator vested with car park operations rights including occupying, managing and operating car park charges in respect of car parking bays located at Platinum Sentral. The total amount received for the financial year ended 31 December 2016 amounted to RM2,002,304.

As announced on 9 December 2016, MQREIT had renewed the appointment of SPSB as the car park operator for Platinum Sentral for a period of 2 years commencing from 1 January 2017 to 31 December 2018, at a monthly minimum guaranteed rental of RM150,000 with a profit sharing basis in the proportion of 80% (MQREIT): 20% (SPSB) ratio.

SPSB was incorporated in Malaysia under the Companies Act, 1965 on 6 August 1997 and its principal activity is operation and management of car parks and parking area.

SPSB is a wholly-owned subsidiary of MRCB, which in turn is a major unitholder of MQREIT and also a major shareholder of MQM.

- (iii) As announced on 22 December 2016, a letter of award has been issued to Semasa Parking Sdn. Bhd. ("SPSB") for the provision of car park operation at Menara Shell for a period of no more than 6 months; at a minimum guarantee rental of RM155,000 per month. The total amount received for the financial year ended 31 December 2016 amounted to RM50,000.

SPSB is a wholly-owned subsidiary of MRCB, which in turn is a major unitholder of MQREIT and also a major shareholder of MQM.

- (iv) Auxiliary police services with Semasa Sentral Sdn. Bhd. ("SSSB") for deployment of auxiliary police personnel at Platinum Sentral, from January 2016 up to December 2016, amounted to RM570,960.

As announced on 22 December 2016, a letter of award has been issued to Semasa Sentral Sdn. Bhd. ("SSSB") for the provision of auxiliary police services at Menara Shell at a fee of RM71,844 per month, for a period no more than 6 months. The total amount incurred for the financial year ended 31 December 2016 amounted to RM23,175.

SSSB was incorporated in Malaysia under the Companies Act, 1965 on 4 May 1982 and its principal activity is maintaining, operating and management of the Kuala Lumpur Sentral Station and any other buildings within the vicinity of Kuala Lumpur Sentral.

SSSB is a wholly-owned subsidiary of MRCB, which in turn is a major unitholder of MQREIT and also a major shareholder of MQM.

- (v) Supply of chilled water by Semasa District Cooling Sdn. Bhd. ("SDCSB") for installation, maintenance and meter reading for Platinum Sentral. The year to date charges for the financial year ended 31 December 2016 amounted to RM3,080,606.

SDCSB is a wholly-owned subsidiary of MRCB, which in turn is a major unitholder of MQREIT and also a major shareholder of MQM.

# NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

cont'd

## 31. RELATED PARTIES TRANSACTIONS (cont'd)

Details of material contract with the related parties other than as disclosed in Note 8 are as follows: (cont'd)

- (vi) Lease agreement with Malaysian Resources Sentral Sdn. Bhd. ("MRSSB") on encroachment on 2 pieces of land located on Platinum Sentral, measuring total NLA of 156,959 sq. ft., amounted to RM67,078.

MRSSB is a wholly-owned subsidiary of MRCB, which in turn is a major unitholder of MQREIT and also a major shareholder of MQM.

- (vii) Acquisition of Menara Shell from 348 Sentral Sdn. Bhd., a wholly-owned subsidiary of MRCB at the purchase consideration of RM640 million, satisfied entirely in cash.
- (viii) Final claim of toilet refurbishment works for QB2 of RM107,910 payable/paid to Accord Construction Sdn. Bhd. ("ACSB") for the financial year ended 31 December 2016.

ACSB is related to Quill Group, and owned by two of the directors of MQREIT's Manager, namely Dato' Dr. Low Moi Ing, J.P. and Dato' Michael Ong Leng Chun.

## 32. INTEREST RATE SWAP ("IRS") ARRANGEMENTS

As part of the active interest rate management strategy of MQREIT, the following IRS arrangements have been entered into:

- (i) On 21 November 2011, an IRS arrangement swapping floating rate for fixed rate for a notional amount RM65 million ("IRS No. 5") was entered into in relation to the RM130 million nominal value CPs issued (Note 21(a)) with HSBC Bank ("HSBC"). Pursuant to IRS No. 5, MQREIT will pay a fixed rate of 3.34% per annum to HSBC whilst HSBC will pay a floating rate to MQREIT. IRS No. 5 commenced on 30 November 2011 and expired on 5 September 2016.
- (ii) On 21 November 2011, an IRS arrangement swapping floating rate for fixed rate for a notional amount RM65 million ("IRS No. 6") was entered into in relation to the RM130 million nominal value CPs issued (Note 21(a)) with CIMB Bank ("CIMB"). Pursuant to IRS No. 6, MQREIT will pay a fixed rate of 3.34% per annum to CIMB whilst CIMB will pay a floating rate to MQREIT. IRS No. 6 commenced on 30 November 2011 and expired on 5 September 2016.
- (iii) On 21 April 2015, an IRS arrangement swapping floating rate for fixed rate for a notional amount of RM139.5 million ("IRS No. 7") was entered into in relation to the RM279 million CPs (Note 21(c)) with HSBC. Pursuant to IRS No. 7, MQREIT will pay a fixed rate of 3.82% per annum to HSBC whilst HSBC will pay a floating rate to MQREIT. IRS No. 7 commenced on 21 April 2015 and will mature on 30 March 2020.
- (iv) On 21 April 2015, an IRS arrangement swapping floating rate for fixed rate for a notional amount of RM139.5 million ("IRS No. 8") was entered into in relation to the RM279 million CPs (Note 21(c)) with CIMB. Pursuant to IRS No. 8, MQREIT will pay a fixed rate of 3.82% per annum to CIMB whilst CIMB will pay a floating rate to MQREIT. IRS No. 8 commenced on 21 April 2015 and will mature on 30 March 2020.

The differences between the floating rate and the fixed rate of the respective IRS arrangements are settled between MQREIT and the banks (HSBC and CIMB) semi-annually for IRS No. 5 and IRS No. 6 and quarterly for IRS No. 7 and IRS No. 8. These are charged or credited to profit or loss accordingly.

The risk associated with the IRS arrangements above would be credit risk, which is the counterparty risk of the financial institutions with whom the IRS were contracted. However, the Manager has taken precaution to mitigate this risk by entering into the IRS contracts with reputable licensed financial institutions.

The fair values of the IRS arrangements are the estimated amount that would be received or paid to terminate the IRS arrangements as at the reporting date, taking into account interest rate market conditions. The fair values are obtained based on quotes provided by the financial institutions.

MQREIT was eligible to apply hedge accounting for its IRS arrangements with effect from 1 October 2010, upon satisfying the requirements of the standard. The portion of the changes in fair values of the IRS arrangements that was determined to be an effective hedge was recognised in other comprehensive income, while the ineffective portion was recognised in profit or loss. Prior to adoption of hedge accounting, the fair value changes of the IRS arrangements were recognised in profit or loss.



# NOTES TO THE FINANCIAL STATEMENTS

31 December 2016  
cont'd

## 32. INTEREST RATE SWAP ("IRS") ARRANGEMENTS (cont'd)

The fair values of the derivative assets/(liabilities) and the maturity profile as at the respective dates are as follows:

|  | 2016<br>RM | 2015<br>RM |
|--|------------|------------|
| Less than 1 year                       | -          | 686,257    |
| More than 1 year and less than 5 years | (983,219)  | 1,594,224  |
|  | (983,219)  | 2,280,481  |

## 33. OTHER SIGNIFICANT EVENTS

### (a) Proposed Acquisition; Proposed Placement; Proposed Placement to Malaysian Resources Corporation Berhad; Proposed Placement to Employees Provident Fund Board; Proposed Authority; and Proposed Increase in Fund Size (collectively referred to as the "Proposals")

Further to the announcements dated 3 December 2015, 3 March 2016 and 12 April 2016, CIMB Investment Bank Berhad ("CIMB"), Hong Leong Investment Bank Berhad ("HLIB") and Maybank Investment Bank Berhad ("Maybank IB"), on behalf of the Board of Directors of MRCB Quill Management Sdn. Bhd. ("Manager" or "Board"), announced that the Trustee, acting solely in the capacity as Trustee for and on behalf of MQREIT, had on 30 June 2016 entered into a conditional Sale and Purchase Agreement with 348 Sentral Sdn. Bhd., a wholly-owned subsidiary of Malaysian Resources Corporation Berhad ("MRCB"), for the proposed acquisition of Menara Shell together with a 5-storey podium and a 4-storey basement car park, for a purchase consideration of RM640,000,000 to be satisfied entirely in cash ("Proposed Acquisition").

In conjunction with the Proposed Acquisition, the Board also proposes to undertake the following:

- Proposed placement of up to 406,666,667 new units in MQREIT ("Units" or "Placement Units") by way of bookbuilding at an issue price to be determined later ("Proposed Placement");
- Proposed placement to MRCB for an amount of no less than RM110,000,000 but up to RM152,000,000 of Placement Units at an issue price to be determined later, pursuant to the Proposed Placement ("Proposed Placement to MRCB");
- Proposed placement to Employees Provident Fund Board ("EPF") of up to 7% of the enlarged Units in circulation of MQREIT at an issue price to be determined later, pursuant to the Proposed Placement ("Proposed Placement to EPF");
- Proposed authority to allot and issue up to 31,952,333 new Units for the purpose of the payment of management fee to the Manager in the form of new Units ("Proposed Authority"); and
- Proposed increase in the existing approved fund size of MQREIT from 700,000,000 Units to up to a maximum of 1,100,000,000 Units ("Proposed Increase in Fund Size")

An announcement was made on 11 July 2016, that the following have been submitted to the Securities Commission ("SC") on the same day:

- Valuation Report for the Property in respect of the Proposed Acquisition; and
- Waiver application form (i) complying with Clauses 14.04 (a)(i) and (ii) of the REIT Guidelines, and (ii) having to submit to the SC a declaration from the advisers/directors of the Manager stating that the Trustee, on behalf of the Unitholders, will enter into a private caveat to protect its interest in the Property and to prevent other encumbrances from being entered by any other party.

# NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

cont'd

## 33. OTHER SIGNIFICANT EVENTS (cont'd)

### (a) **Proposed Acquisition; Proposed Placement; Proposed Placement to Malaysian Resources Corporation Berhad; Proposed Placement to Employees Provident Fund Board; Proposed Authority; and Proposed Increase in Fund Size (collectively referred to as the "Proposals") (cont'd)**

As announced on 4 August 2016, SC had, vide its letter dated 3 August 2016, approved the exemptions from:

- (i) Compliance with Clauses 14.04(a)(i) and (ii) of the REIT Guidelines; and
- (ii) Submitting to the SC a declaration from the advisers/directors of the Managers stating that the Trustee, on behalf of the Unitholders, will enter into a private caveat to protect its interest in the Property and to prevent other encumbrances from being entered by any other party.

Subsequent to the above it was announced on 8 August 2016 that, an application to the SC in respect of the Proposals was submitted on the same day.

On 28 September 2016, on behalf of the Board, CIMB, HLIB and Maybank IB announced that MQREIT had on 28 September 2016 received the approval of the SC via their letter dated 27 September 2016 for the:

- (i) Value of the Property pursuant to Clause 10.12(b) of the REIT Guidelines;
- (ii) Issuance of new Units; and
- (iii) Listing of and quotation for the new Units on the Main Market of Bursa Securities;

subject to the terms and conditions as set out below:

#### **Terms**

- (i) Issuance of:
  - (a) up to 406,666,667 new Units pursuant to the Proposed Placement;
  - (b) up to 31,952,333 new Units pursuant to the Proposed Authority; and
- (ii) Listing and quotation for up to 438,619,000 new Units on the Main Market of Bursa Securities.

#### **Conditions**

- (i) In relation to the Proposed Placement;
  - (a) Maybank IB, CIMB, HLIB and the Manager are to inform the SC of the actual number of new Units issued, the date of the issuance of the new Units and the date of the listing of and quotation for such new Units on the Main Market of Bursa Securities; and
  - (b) The issuance and listing of new Units on the Main Market of Bursa Securities must be completed within 6 months from the date of the decision letter. The SC's approval is deemed to lapsed if the Manager fails to do so within the stipulated timeframe.
- (ii) In relation to the Proposed Authority, the Manager is to inform the SC of the actual number of new Units issued, the date of the issuance of the new Units and the date of the listing of and quotation for such new Units on the Main Market of Bursa Securities.

As announced on 11 October 2016, application to Bursa Securities for the additional listing of and quotation for new Units to be issued pursuant to the Proposed Placement and Proposed Authority on the Main Market of Bursa Securities was submitted on the same day.

# NOTES TO THE FINANCIAL STATEMENTS

31 December 2016  
cont'd

## 33. OTHER SIGNIFICANT EVENTS (cont'd)

### (a) **Proposed Acquisition; Proposed Placement; Proposed Placement to Malaysian Resources Corporation Berhad; Proposed Placement to Employees Provident Fund Board; Proposed Authority; and Proposed Increase in Fund Size (collectively referred to as the "Proposals") (cont'd)**

Subsequent to the above, an announcement was made on 21 November 2016, to inform that MQREIT had on even date, received the approval from Bursa Securities via their letter dated 21 November 2016 for the additional listing of and quotation for new Units to be issued pursuant to the Proposed Placement and Proposed Authority on the Main Market of Bursa Securities.

As announced on 21 November 2016, the Unitholders' Meeting of MQREIT was scheduled to be held at Sime Darby Convention Centre, Ballroom 3, Level 1, No 1A, Jalan Bukit Kiara, 1, 60000 Kuala Lumpur on Wednesday, 7 December 2016 at 10.30 a.m..

Pursuant to the above, the Notice of Meeting together with the circular to Unitholders in relation to the proposals and the corresponding addendum to the Circular ("Addendum") and were despatched to Unitholders on 22 November 2016 and 25 November 2016 respectively.

As announced on 7 December 2016, all the resolutions as set out in the Notice of Meeting dated 22 November 2016 were duly passed at the Unitholder's Meeting of MQREIT held on 7 December 2016.

Accordingly, on 7 December 2016, MQREIT unitholders approved the acquisition of Menara Shell at the purchase price of RM640 million. Upon completion, the Proposed Acquisition is expected to expand MQREIT's asset portfolio size from RM1.63 billion as at 31 December 2015 to approximately RM2.27 billion.

It was announced on 8 December 2016 that following the bookbuilding exercise, the issue price of the Placement Units was fixed at RM1.20 per Unit, representing a discount of approximately 1.74% or RM0.0213 to the 5-day VWAMP of the Units, up to and including 7 December 2016 of RM1.2213, adjusted for the dividend of 4.15 sen per Unit.

It was announced that a total of 406,619,000 Units will be allocated to selected investors, including to MRCB and EPF, representing approximately 61.48% of the existing Units in circulation of 661,381,000 Units. Accordingly, the Proposed Placement will raise gross proceeds of approximately RM487,942,800.

An announcement was made on 16 December 2016 to inform that all the Conditions Precedent under the SPA for the Proposed Acquisition have been fulfilled on 16 December 2016 and has become unconditional on even date.

As announced in the Trust's Additional Listing Announcement on 21 December 2016 and announcement made on 22 December 2016 respectively, 406,619,000 Placement Units were issued at the unit price of RM1.20 per Unit and allotted on 21 December 2016 and subsequently listed on the Main Market of Bursa Securities with effect from 9.00 a.m. on Thursday, 22 December 2016. With the listing of the Placement Units, the enlarged Units in circulation is 1,068,000,000 Units.

Following the above, the Proposals, save for the Proposed Authority, have been completed.

### (b) **Proposed establishment of Commercial Papers Programme ("CP Programme") and Medium Term Notes Programme ("MTN Programme") with aggregate combined limit of RM3.0 billion in nominal value (collectively referred to as the "Programmes") by Kinabalu Capital Sdn. Bhd. ("Issuer")**

As announced on 30 November 2016, MRCB Quill Management Sdn. Bhd., the manager of MQREIT, is pleased to announce that the issuer, a wholly-owned special purpose vehicle of Maybank Trustees Berhad (as the trustee for and on behalf of MQREIT), has on 30 November 2016 lodged the Programmes with the Securities Commission.

The CP Programme shall have a legal tenure of seven (7) years from the date of the first issue of the CPs under the CP Programme, whereas the MTN Programme shall have a legal tenure of twenty (20) years from the date of the first issue of MTNs under the MTN Programme. Issuance of CPs and/or MTNs from time to time under the Programmes may be rated and/or unrated and shall be determined prior to such issuance.

# NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

cont'd

## 33. OTHER SIGNIFICANT EVENTS (cont'd)

- (b) **Proposed establishment of Commercial Papers Programme ("CP Programme") and Medium Term Notes Programme ("MTN Programme") with aggregate combined limit of RM3.0 billion in nominal value (collectively referred to as the "Programmes") by Kinabalu Capital Sdn. Bhd. ("Issuer") (cont'd)**

Proceeds raised from the issuance of CPs and/or MTNs under the Programmes may be utilised by the Issuer, amongst others, to advance to MQREIT to finance or part-finance, amongst others, investment activities (including without limitation capital expenditure, asset enhancement and the related acquisitions and financing expenses) of MQREIT, refinancing of existing and/or future borrowings/facilities of MQREIT, and/or working capital requirements of MQREIT, from time to time.

CIMB Investment Bank Berhad and Maybank Investment Bank Berhad are the Joint Principal Advisors, Joint Lead Arrangers and Joint Lead Managers for the Programmes.

As announced on 22 December 2016, MRCB Quill Management Sdn. Bhd., the manager of MQREIT has on 22 December 2016, made its first issuance of RM144 million in nominal value of CPs and RM20 million in nominal value of MTNs out of the respective Programmes.

Proceeds raised from the issuance of CPs and MTNs under the Programme were utilised by the Issuer, amongst others, to advance to REIT Trustee to part-finance the acquisition of Menara Shell together with a 5-storey podium and a 4-storey basement car park.

## 34. SUBSEQUENT EVENT

- (a) **The Authority to allot and issue up to 18,619,000 new Units in MQREIT for the purpose of the payment of management fee to MRCB Quill Management Sdn. Bhd. in the form of new Units ("Authority")**

As announced on 3 January 2017, the Authority, which was approved by unitholders of MQREIT at the unitholders' meeting on 12 March 2015, has lapsed on 31 December 2016, following the expiry of the approval from the authorities and the unitholders of MQREIT to implement the Authority by 31 December 2016. No Manager's Unit was issued pursuant to the Authority.

## 35. FAIR VALUE OF FINANCIAL INSTRUMENTS

- (a) **Determination of fair value**

Financial instruments that are not carried at fair value and where carrying amounts are reasonable approximation of fair value

The following are classes of financial instruments that are not carried at fair value and whose carrying amounts are reasonable approximations of fair value:

|  | Note |
|--|------|
| Trade and other receivables                            | 18   |
| Lease receivables                                      | 17   |
| Cash and cash equivalents                              | 19   |
| Borrowings   | 21   |
| Trade and other payables (including security deposits) | 20   |

The carrying amounts of these financial assets and liabilities are reasonable approximation of fair values, either due to their short-term nature or that they are floating rate instruments that are repriced to market interest rates on or near the reporting date.

The fair values of long term borrowings and security deposits are estimated by discounting expected future cash flows at market incremental lending rate for similar types of lending, borrowing or leasing arrangements at the reporting date.

# NOTES TO THE FINANCIAL STATEMENTS

31 December 2016  
cont'd

## 35. FAIR VALUE OF FINANCIAL INSTRUMENTS (cont'd)

### (b) Fair value measurement

MQREIT uses the hierarchy as disclosed in Note 3.20 in determining and disclosing the fair value of financial instruments.

Quantitative disclosures fair value measurement hierarchy for assets and liabilities as at 31 December 2016 and 31 December 2015 are as follows:

|   | Total<br>RM   | Level 2<br>RM | Level 3<br>RM |
|---|---------------|---------------|---------------|
| <b>As 31 December 2016</b>                |               |               |               |
| <b>Assets measured at fair value</b>      |               |               |               |
| Investment properties                     | 2,222,000,000 | -             | 2,222,000,000 |
| <b>Liabilities measured at fair value</b> |               |               |               |
| Derivative liabilities                    |               |               |               |
| - non-current                             | (983,219)     | (983,219)     | -             |
| <b>As 31 December 2015</b>                |               |               |               |
| <b>Assets measured at fair value</b>      |               |               |               |
| Derivatives assets                        |               |               |               |
| - non-current                             | 1,594,224     | 1,594,224     | -             |
| - current                                 | 686,257       | 686,257       | -             |
| Investment properties                     | 1,569,800,000 | -             | 1,569,800,000 |

### Level 2 fair value

Level 2 fair value of the derivatives has been derived using reference to mark-to-market as at the reporting date quoted by financial institutions.

### Level 3 fair value

Level 3 fair value of investment properties has been derived using the investment method as described in Note 15.

There were no material transfers between Level 2 and Level 3 during the financial year.

# NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

cont'd

## 35. FAIR VALUE OF FINANCIAL INSTRUMENTS (cont'd)

### (b) Fair value measurement (cont'd)

#### Level 3 fair value (cont'd)

Set out below is a comparison, by class, of the carrying amounts and fair value of MQREIT's financial instruments, other than those with carrying amounts that are reasonable approximation of fair values:

|   | Note  | Carrying<br>amount<br>RM | Fair value<br>RM |
|---|-------|--------------------------|------------------|
| <b>Financial liabilities</b>                                      |       |                          |                  |
| <b>At 31 December 2016</b>  |       |                          |                  |
| Fixed Rate Term Loan Facility of up to RM150 million              | 21(b) | 116,671,400              | 117,000,000      |
| Fixed Rate Subordinated Term Loan Facility of up to RM250 million | 21(c) | 109,548,075              | 110,000,000      |
| <b>At 31 December 2015</b>  |       |                          |                  |
| Fixed Rate Term Loan Facility of up to RM150 million              | 21(b) | 116,475,715              | 117,000,000      |
| Senior CPs/MTNs Programme of up to RM290 million                  | 21(c) | 274,930,520              | 276,251,850      |
| Fixed Rate Subordinated Term Loan Facility of up to RM250 million | 21(c) | 109,405,371              | 110,000,000      |

## 36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

MQREIT is exposed to financial risks arising from its operations and use of financial instruments, including interest rate risk, credit risk, liquidity risk and market risk.

MQREIT has a system of controls in place to create an acceptable balance between the costs of risks occurring and the costs of managing the risks. The Manager continually monitors the Group's risk management process to ensure that an appropriate balance between risk and control is achieved. Risk management policies are reviewed regularly to reflect changes in market conditions and MQREIT's activities.

The Audit Committee oversees how management monitors the compliance with stated risk management policies and procedures, assisted by the internal auditor. The internal auditor undertakes regular review of risk management controls and procedures, the results of which are reported to the Audit Committee.

The following section provides details of MQREIT's exposures to the above mentioned risks and the objectives and policies for the management of these risks.

### (a) Interest rate risk

MQREIT's exposure to changes in interest rates relates primarily to borrowings as disclosed in Note 21. Interest rate is managed on an on-going basis with the primary objective of limiting the extent to which net interest expense could be affected by adverse movements in interest rates. IRS arrangements have been entered into to partially manage the exposure to interest rate risk. Details of the IRS arrangements are as described in Note 32.



# NOTES TO THE FINANCIAL STATEMENTS

31 December 2016  
cont'd

## 36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (cont'd)

### (a) Interest rate risk (cont'd)

#### Sensitivity analysis for interest rate risk

At the reporting date, if interest rates had been 10 basis points ("bps") lower/higher, with all other variables held constant, MQREIT's income net of taxation as a result of lower/higher interest income on short term deposits and interest expense on floating rate loans and borrowings would have the following effects:

|                      | Income, net of taxation |            |
|----------------------|-------------------------|------------|
|                      | 2016<br>RM              | 2015<br>RM |
| <b>Interest Rate</b> |                         |            |
| -10bps               | 174,968                 | 69,436     |
| +10bps               | (174,968)               | (69,436)   |

### (b) Credit risk

Credit risk is the risk of potential financial loss resulting from failure of a customer or counterparty to settle its financial and contractual obligations to MQREIT as and when they fall due.

MQREIT's exposure to credit risk arises primarily from trade receivables. The risk is managed by stringent selection process to ensure creditworthy and good standing tenants are selected. The risk of non-collection of rental is mitigated by diligent on-going monitoring of outstanding receivables and collection of security deposits from tenants.

For other financial assets, MQREIT minimises the credit risk by dealing with high credit rating counterparties and/or reputable and licensed financial institutions.

As at 31 December 2016, MQREIT's maximum exposure to credit risk is represented by the carrying amount of its financial assets as follows:

|                             | Note | 2016<br>RM | 2015<br>RM |
|-----------------------------|------|------------|------------|
| Trade and other receivables | 18   | 17,626,110 | 5,648,126  |
| Cash and cash equivalents   | 19   | 54,051,281 | 44,863,963 |
| Derivatives                 | 16   | -          | 2,280,481  |
| Lease receivables           | 17   | 3,438,509  | 2,410,548  |

# NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

cont'd

## 36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (cont'd)

### (c) Liquidity risk

Liquidity risk is the risk that MQREIT will encounter difficulty in meeting financial obligations due to shortage of funds, which may potentially arise from mismatches of maturities of financial assets and liabilities. As the timing of funding arrangements can be critical, MQREIT may be exposed to the risk of its real estate properties being foreclosed in the interim.

To mitigate liquidity risk, the Manager maintains adequate level of cash and cash equivalents and arranges for refinancing of MQREIT's borrowings on a timely basis to fund MQREIT's operations and meet its financial obligations. In addition, the Manager observes the SC REIT Guidelines concerning the limits to total borrowings and ensures compliance with stated financial covenants per terms of its borrowings.

#### Analysis of financial instruments by remaining contractual maturities

The table below summarises the maturity profile of MQREIT's liabilities at the reporting date based on contractual undiscounted repayment obligations.

|  | On demand<br>or within<br>one year<br>RM | One to five<br>years<br>RM | Over five<br>years<br>RM | Total<br>RM   |
|--|--|----------------------------|--------------------------|---------------|
| <b>At 31 December 2016</b>               |  |                            |                          |               |
| Trade and other payables                 | 28,350,115                               | -                          | -                        | 28,350,115    |
| Borrowings                               | 221,259,332                              | 740,477,818                | -                        | 961,737,150   |
| Security deposits                        | 7,336,154                                | 15,382,699                 | 7,591,314                | 30,310,167    |
| Total undiscounted financial liabilities | 256,945,601                              | 755,860,517                | 7,591,314                | 1,020,397,432 |
| <b>At 31 December 2015</b>               |  |                            |                          |               |
| Trade and other payables                 | 14,246,501                               | -                          | -                        | 14,246,501    |
| Borrowings                               | 217,834,721                              | 570,895,110                | -                        | 788,729,831   |
| Security deposits                        | 2,515,677                                | 13,126,060                 | 2,446,403                | 18,088,140    |
| Total undiscounted financial liabilities | 234,596,899                              | 584,021,170                | 2,446,403                | 821,064,472   |

### (d) Market risk

Market risk is the risk that changes in market prices, such as interest rate and unit fund prices which will affect MQREIT's financial results or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

## 37. CAPITAL MANAGEMENT

The primary objective of capital management is to optimise MQREIT's capital structure and cost of capital, while maintaining the gearing ratio within the limits as set out in the SC REIT Guidelines.

The Manager employs a combination of appropriate and flexible debt and financing policies to manage both current and future funding requirements of MQREIT. The Manager, on an on-going basis, manages the capital structure of MQREIT and makes adjustments to it when necessary, in the light of changes in economic conditions.

MQREIT's capital includes units issued, undistributed distributable income and non-distributable reserves.

# NOTES TO THE FINANCIAL STATEMENTS

31 December 2016  
cont'd

## 38. SEGMENTAL REPORTING

No segmental reporting is prepared as MQREIT's activities are predominantly in one industry segment and its properties are situated in Malaysia.

## 39. UNDISTRIBUTED AND NON-DISTRIBUTABLE INCOME

The breakdown of the undistributed and non-distributable income of MQREIT, into realised and unrealised net income, are as follows:

|   | 2016<br>RM  | 2015<br>RM  |
|---|-------------|-------------|
| <b>Total undistributed and non-distributable income of MQREIT</b> |             |             |
| - Realised  | 17,204,848  | 42,374,963  |
| - Unrealised  | 110,553,918 | 110,203,539 |
|   | 127,758,766 | 152,578,502 |

The unrealised net income relates to the cumulative fair value adjustment to investment properties, net gain or loss on financial liabilities measured at amortised cost, fair value change on derivatives and unbilled lease income receivable.

The determination of realised and unrealised net income is based on the Guidance of Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosures Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, issued by the Malaysian Institute of Accountants on 20 December 2010.

The disclosure of realised and unrealised net income above is solely for complying with the disclosure requirements stipulated in the directive of Bursa Malaysia and should not be applied for any other purpose.

# UNITHOLDINGS AND 30 LARGEST UNITHOLDERS

As at 31 December 2016

## DISTRIBUTION OF UNITHOLDINGS AS AT 31 DECEMBER 2016

| Unit Class                              | No. of Unitholders | % of Unitholders | No. of Unitholdings  | % of Unitholdings |
|---|--------------------|------------------|----------------------|-------------------|
| Less than 100                           | 51                 | 1.10             | 960                  | -                 |
| 100 – 1,000                             | 701                | 15.31            | 521,840              | 0.05              |
| 1,001 – 10,000                          | 2,193              | 47.88            | 12,132,600           | 1.14              |
| 10,001 – 100,000                        | 1,306              | 28.52            | 46,641,200           | 4.37              |
| 100,001 to less than 5% of issued units | 325                | 7.10             | 518,986,400          | 48.59             |
| 5% and above of issued units            | 4                  | 0.09             | 489,717,000          | 45.85             |
| <b>TOTAL</b>                            | <b>4,580</b>       | <b>100.00</b>    | <b>1,068,000,000</b> | <b>100.00</b>     |

## CLASSIFICATION OF UNITHOLDERS AS AT 31 DECEMBER 2016

| CATEGORY OF UNITHOLDERS |  | NO. OF UNITHOLDERS |               |         | NO. OF UNITS         |               |             |
|-------------------------|--|--------------------|---------------|---------|----------------------|---------------|-------------|
|                         |  | MALAYSIAN          |               | FOREIGN | MALAYSIAN            |               | FOREIGN     |
|                         |  | BUMIPUTRA          | NON-BUMIPUTRA |         | BUMIPUTRA            | NON-BUMIPUTRA |             |
| 1.                      | Individual                                   | 96                 | 3,319         | 63      | 1,231,300            | 79,954,935    | 1,266,600   |
| 2.                      | Body Corporate                               |                    |               |         |                      |               |             |
|                         | Banks/Finance Companies                      | 17                 | 2             | 1       | 159,036,000          | 1,265,300     | 193,600     |
|                         | Investments Trusts/<br>Foundations/Charities | -                  | 3             | -       | -                    | 206,494,500   | -           |
|                         | Other Types of Companies                     | 11                 | 78            | 1       | 3,550,900            | 140,134,900   | 58,000      |
| 3.                      | Government Agencies/<br>Institutions         | -                  | -             | -       | -                    | -             | -           |
| 4.                      | Nominees                                     | 529                | 400           | 60      | 46,925,865           | 304,464,500   | 123,423,600 |
| 5.                      | Others                                       | -                  | -             | -       | -                    | -             | -           |
| TOTAL                   |  | 653                | 3,802         | 125     | 210,744,065          | 732,314,135   | 124,941,800 |
| <b>GRAND TOTAL</b>      |  | <b>4,580</b>       |               |         | <b>1,068,000,000</b> |               |             |

# UNITHOLDINGS AND 30 LARGEST UNITHOLDERS

As at 31 December 2016  
cont'd

## 30 LARGEST UNITHOLDERS AS AT 31 DECEMBER 2016

| NO. | NAME OF UNITHOLDERS   | UNITHOLDINGS | %     |
|-----|---|--------------|-------|
| 1   | PACIFIC TRUSTEES BERHAD<br><i>EXEMPT AN FOR MALAYSIA RESOURCES CORPORATION BERHAD</i>   | 206,250,000  | 19.31 |
| 2   | HSBC NOMINEES (ASING) SDN BHD<br><i>HSBC-FS FOR CAPITACOMMERCIAL TRUST</i>  | 117,040,000  | 10.96 |
| 3   | MALAYSIA RESOURCES CORPORATION BERHAD   | 91,667,000   | 8.58  |
| 4   | CITIGROUP NOMINEES (TEMPATAN) SDN BHD<br><i>EMPLOYEES PROVIDENT FUND BOARD</i>  | 74,760,000   | 7.00  |
| 5   | HLIB NOMINEES (TEMPATAN) SDN BHD<br><i>PLEDGED SECURITIES ACCOUNT FOR QUILL LAND SDN BHD (IB)</i>                               | 48,767,000   | 4.57  |
| 6   | HLIB NOMINEES (TEMPATAN) SDN BHD<br><i>PLEDGED SECURITIES ACCOUNT FOR QUILL ESTATES SDN BHD (IB)</i>                            | 33,365,000   | 3.12  |
| 7   | AMANAHRAYA TRUSTEES BERHAD<br><i>AMANA SAHAM BUMIPUTERA</i>   | 30,200,000   | 2.83  |
| 8   | KUMPULAN WANG PERSARAAN (DIPERBADANKAN)   | 29,392,000   | 2.75  |
| 9   | VALUECAP SDN BHD  | 17,137,100   | 1.60  |
| 10  | HONG LEONG ASSURANCE BERHAD<br><i>AS BENEFICIAL OWNER (LIFE PAR)</i>  | 16,433,300   | 1.54  |
| 11  | HLIB NOMINEES (TEMPATAN) SDN BHD<br><i>PLEDGED SECURITIES ACCOUNT FOR QUILL ESTATES SDN BHD (IB)</i>                            | 16,158,000   | 1.51  |
| 12  | HSBC NOMINEES (TEMPATAN) SDN BHD<br><i>EXEMPT AHSBC (M) TRUSTEE BHD FOR ALLIANZ LIFE INSURANCE MALAYSIA MALAYSIA BERHAD (P)</i> | 15,627,000   | 1.46  |
| 13  | AMANAHRAYA TRUSTEES BERHAD<br><i>AMANA SAHAM WAWASAN 2020</i>   | 15,600,000   | 1.46  |
| 14  | AMANAHRAYA TRUSTEES BERHAD<br><i>AMANA SAHAM MALAYSIA</i>   | 15,600,000   | 1.46  |
| 15  | AMANAHRAYA TRUSTEES BERHAD<br><i>AMANA SAHAM BUMIPUTERA 2</i>   | 15,600,000   | 1.46  |
| 16  | MALAYSIA NOMINEES (TEMPATAN) SENDIRIAN BERHAD<br><i>GREAT EASTERN LIFE ASSURANCE (MALAYSIA) BERHAD (PAR 3)</i>                  | 15,523,200   | 1.45  |
| 17  | MALAYSIA NOMINEES (TEMPATAN) SENDIRIAN BERHAD<br><i>GREAT EASTERN LIFE ASSURANCE (MALAYSIA) BERHAD (PAR 1)</i>                  | 14,500,000   | 1.36  |
| 18  | QUILL PROPERTIES SDN BHD  | 12,632,000   | 1.18  |
| 19  | CIMB GROUP NOMINEES (TEMPATAN) SDN BHD<br><i>YAYASAN HASANAH (AUR-VCAM)</i>   | 9,904,100    | 0.93  |
| 20  | AMANAHRAYA TRUSTEES BERHAD<br><i>AS 1MALAYSIA</i>   | 7,800,000    | 0.73  |
| 21  | AMANAHRAYA TRUSTEES BERHAD<br><i>PUBLIC OPTIMAL GROWTH FUND</i>   | 7,000,000    | 0.66  |
| 22  | CARTABAN NOMINEES (TEMPATAN) SDN BHD<br><i>PAMB FOR PARTICIPATING FUND</i>  | 6,762,300    | 0.63  |
| 23  | CHAI YUNE LOONG   | 6,383,500    | 0.60  |
| 24  | QUILL ESTATES SDN BHD   | 6,118,000    | 0.57  |
| 25  | CITIGROUP NOMINEES (TEMPATAN) SDN BHD<br><i>EXEMPT AN FOR AIA BHD</i>   | 5,858,500    | 0.55  |

# UNITHOLDINGS AND 30 LARGEST UNITHOLDERS

As at 31 December 2016

cont'd

## 30 LARGEST UNITHOLDERS AS AT 31 DECEMBER 2016 (cont'd)

| NO. | NAME OF UNITHOLDERS  | UNITHOLDINGS | %     |
|-----|--|--------------|-------|
| 26  | DB (MALAYSIA) NOMINEE (TEMPATAN) SENDIRIAN BERHAD<br><i>DEUTSCHE TRUSTEES MALAYSIA BERHAD FOR EASTSPRING INVESTMENTSSMALL-CAP FUND</i> | 4,648,800    | 0.44  |
| 27  | AMANAHRAYA TRUSTEES BERHAD<br><i>AMANA SAHAM GEMILANG FOR AMANA SAHAM KESIHATAN</i>  | 4,400,000    | 0.41  |
| 28  | HSBC NOMINEES (TEMPATAN) SDN BHD<br><i>HSBC (M) TRUSTEE BHD FOR PERTUBUHAN KESELAMATAN SOSIAL (AFF HWG6939-403)</i>                    | 4,297,300    | 0.40  |
| 29  | HSBC NOMINEES (TEMPATAN) SDN BHD<br><i>HSBC (M) TRUSTEE BHD FOR AFFIN HWANG SELECT OPPORTUNITY FUND (3969)</i>                         | 4,226,800    | 0.40  |
| 30  | AMANAHRAYA TRUSTEES BERHAD<br><i>AMANA SAHAM NASIONAL 2</i>  | 3,900,000    | 0.37  |
|     |  | 857,550,900  | 80.30 |



# NOTICE OF FIFTH ANNUAL GENERAL MEETING



## MRCB-QUILL REIT

*(Established in Malaysia under the Deed of Trust dated 9 October 2006, as amended by the first supplemental deed dated 27 August 2007, the second supplemental deed dated 28 May 2013 and third supplemental deed dated 2 April 2015 entered into between MRCB Quill Management Sdn Bhd, a company incorporated in Malaysia under the Companies Act, 2016 and Maybank Trustees Berhad, a company incorporated in Malaysia under the Companies Ordinances, 1940 to 1946)*

**NOTICE IS HEREBY GIVEN THAT** the Fifth Annual General Meeting of MRCB-Quill REIT ("MQREIT") will be held at Grand Ballroom, Level 2, Aloft Kuala Lumpur Sentral, No. 5, Jalan Stesen Sentral, 50470 Kuala Lumpur on Wednesday, 5 April 2017 at 10.00 a.m. or at any adjournment thereof, for the following purposes:

### AGENDA

#### As Ordinary Business:

1. To receive the Audited Financial Statements for the financial year ended 31 December 2016 of MQREIT together with the Trustee's Report to the Unitholders issued by Maybank Trustees Berhad, as trustee for MQREIT ("Trustee") and the Statement by the Manager issued by MRCB Quill Management Sdn Bhd, as the Manager of MQREIT ("Manager") and the Auditors' Report thereon. *(Please refer to Explanatory Note 1)*

#### As Special Business:

To consider and if thought fit, to pass the following resolution with or without modifications: *Ordinary Resolution*

2. Proposed authority to allot and issue new units pursuant to Clause 14.03 of the Guidelines on Real Estate Investment Trusts issued by Securities Commission Malaysia ("REIT Guidelines")

"THAT pursuant to the REIT Guidelines, Main Market Listing Requirements of Bursa Malaysia Securities Berhad and the approval of the relevant regulatory authorities, where such approval is required, approval be and is hereby given to the Directors of the Manager, to issue and allot new units in MQREIT ("New Units") from time to time to such persons and for such purposes as the Directors of the Manager may deem fit, provided that the aggregate number of the New Units to be issued pursuant to this resolution, when aggregated with the number of units issued during the preceding 12 months must not exceed 20% of the approved fund size of MQREIT for the time being comprising 1,068,000,000 units ("Proposed Mandate");

THAT such approval shall continue to be in force until:

- (a) the conclusion of the next Annual General Meeting of the unitholders at which time it will lapse, unless the authority is renewed by a resolution passed at the meeting;
- (b) the expiration of the period within which the next Annual General Meeting of the unitholders is required by law to be held; or
- (c) revoked or varied by a resolution passed by the unitholders in a unitholders' meeting, whichever is the earlier;

THAT the New Units to be issued pursuant to the Proposed Mandate shall, upon allotment and issue, rank *pari passu* in all respects with the existing units except that the New Units will not be entitled to any income distribution, right, benefit, entitlement and/or any other distributions that may be declared prior to the date of allotment and issuance of such New Units;

# NOTICE OF FIFTH ANNUAL GENERAL MEETING

cont'd

AND THAT authority be and is hereby given to the Directors of the Manager and the Trustee, acting for and on behalf of MQREIT, to give effect to the Proposed Mandate with full powers to assent to any conditions, modifications, variations and/or amendments in any manner as may be imposed by the relevant authorities or as the Manager and the Trustee may deem to be in the best interest of the unitholders and to deal with all matters relating thereto and to take all such steps and do all acts and things in any manner as they may deem necessary or expedient to implement, finalise and to give full effect to the Proposed Mandate.

3. To transact such other business of which due notice shall have been given in accordance with the Trust Deed constituting MQREIT.

## BY ORDER OF THE BOARD

MRCB Quill Management Sdn Bhd  
(The Manager of MRCB-Quill REIT)

Mohamed Noor Rahim bin Yahaya (MAICSA 0866820)  
Ho Ngan Chui (MAICSA 7014785)  
Company Secretaries

Kuala Lumpur  
Date: 28 February 2017

## Notes:

1. *Only unitholders whose name appear in the Record of Depositors of MQREIT on 29 March 2017 shall be eligible to attend in person or appoint proxies to attend and/or vote on their behalf at the Fifth Annual General Meeting.*
2. *A unitholder who is entitled to attend and vote at this meeting is entitled to appoint not more than two (2) proxies to attend and vote in his stead. A proxy may but need not be a unitholder.*
3. *Where a unitholder appoints two (2) proxies, the appointment shall be invalid unless it specifies the proportions of its holdings to be represented by each proxy.*
4. *Where a unitholder is an exempt authorised nominee which holds the units for multiple beneficial owners in one securities account, there is no limit to the number of proxies which the exempt authorised nominee may appoint in respect of each omnibus account it holds.*
5. *The instrument appointing a proxy shall be in writing under the hand of the appointor or of its attorney duly authorised in writing or if the appointor is a corporation either under its common seal or under the hand of an officer or attorney so authorised.*
6. *The instrument appointing a proxy shall be deposited at the Registered Address of MRCB Quill Management Sdn Bhd at Level 33A, Menara NU 2, No. 203, Jalan Tun Sambanthan, Kuala Lumpur Sentral, 50470 Kuala Lumpur not less than forty-eight (48) hours before the time appointed for holding the meeting or any adjournment thereof.*

# NOTICE OF FIFTH ANNUAL GENERAL MEETING

cont'd

## **Explanatory Notes on Ordinary and Special Business:**

### **1. Item 1 of the Agenda**

*This Agenda is meant for discussion only as the Audited Financial Statements do not require formal approval of unitholders in accordance with Clause 15.33A of the guidelines on Real Estate Investment Trust issued by the Securities Commission Malaysia. Therefore, this agenda will not be put for voting.*

### **2. Item 2 of the Agenda – Proposed Mandate**

*The proposed ordinary resolution, if passed, will give a mandate to the Manager to issue New Units of MQREIT from time to time provided that the aggregate number of the New Units to be issued, when aggregated with the number of units issued during the preceding 12 months must not exceed 20% of the approved fund size of MQREIT for the time being. This authority, unless revoked or varied at a general meeting, will expire at the conclusion of the next Annual General Meeting of MQREIT.*

*The Proposed Mandate will allow the Manager the flexibility to allot and issue New Units to raise funds to finance future investments, acquisitions and capital expenditure to enhance the value of MQREIT and/or to refinance existing debt as well as for working capitals purposes, subject to the relevant laws and regulations.*

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## MRCB-QUILL REIT

| Number of Ordinary Share(s) held | CDS Account No. |  |  |   |  |  |  |   |  |  |  |  |  |  |
|----------------------------------|-----------------|--|--|---|--|--|--|---|--|--|--|--|--|--|
|                                  |                 |  |  | - |  |  |  | - |  |  |  |  |  |  |

I/We (FULL NAME IN CAPITAL LETTERS) \_\_\_\_\_

NRIC No./Passport No./Company No. \_\_\_\_\_ of (FULL ADDRESS) \_\_\_\_\_

being a unitholder/unitholders of MRCB-Quill REIT hereby appoint:

|         |                                       | Proportion on Unitholdings to be represented by the Proxies |                | and/or failing him/her |
|---------|---------------------------------------|---|----------------|------------------------|
|         | Full Name of Proxy in capital letters | Number of shares  | Percentage [%] |                        |
| Proxy 1 | NRIC No./Passport No.:                |   |                |                        |
| Proxy 2 | NRIC No./Passport No.:                |   |                |                        |
| Total   |                                       |   | 100%           |                        |

or failing him/her the Chairman of the Meeting as my/our proxies to attend and vote for me/us on my/our behalf at the Fifth Annual General Meeting of MRCB-Quill REIT to be held at Grand Ballroom, Level 2, Aloft Kuala Lumpur Sentral, No. 5, Jalan Stesen Sentral, 50470 Kuala Lumpur on Wednesday, 5 April 2017 at 10.00 a.m. and at any adjournment thereof.

My/our proxy is to vote on the Resolutions as indicated by an "X" in the appropriate spaces below. If this form is returned without any indication as to how the proxy shall vote, the proxy shall vote or abstain as he/she thinks fit.

| No. | Resolution       | For | Against |
|-----|------------------|-----|---------|
| 1   | Proposed Mandate |     |         |

Dated this \_\_\_\_\_ day of \_\_\_\_\_ 2017

Signature of Unitholders

\* DELETE IF NOT APPLICABLE

### Notes:

#### Proxy

- Only Unitholders whose name appear in the Record of Depositors of MQREIT on 29 March 2017 shall be eligible to attend in person or appoint proxies to attend and/or vote on their behalf at the Fifth Annual General Meeting.
- A unitholder who is entitled to attend and vote at this meeting is entitled to appoint another person to attend and vote in his stead. A proxy may but need not be a unitholder.
- Where a Unitholder appoints two (2) proxies, the appointment shall be invalid unless it specifies the proportions of its holdings to be represented by each proxy.
- Where a Unitholder is an exempt authorised nominee which holds the units for multiple beneficial owners in one securities account, there is no limit to the number of proxies which the exempt authorised nominee may appoint in respect of each omnibus account it holds.
- The instrument appointing a proxy shall be in writing under the hand of the appointor or of its attorney duly authorised in writing or if the appointor is a corporation either under its common seal or under the hand of an officer or attorney so authorised.
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Fold this flap for sealing

Then fold here

Affix  
stamp

The Company Secretary  
**MRCB Quill Management Sdn. Bhd.**

The Manager of MRCB-Quill REIT  
Level 33A, Menara NU 2,  
No. 203, Jalan Tun Sambanthan,  
Kuala Lumpur Sentral,  
50470 Kuala Lumpur.

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[www.mrcbquillreit.com](http://www.mrcbquillreit.com)

**MRCB Quill Management Sdn. Bhd. (737252-X)**

(the Manager of MRCB-Quill REIT )

Level 35, Menara NU 2, No. 203, Jalan Tun Sambanthan,  
Kuala Lumpur Sentral, 50470 Kuala Lumpur.

Tel: +603 2786 8080 / 2859 7070

Fax: +603 2780 7988

